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Practice & Revision Kit

**Foundations in Accountancy / ACCA
Financial Accounting (FFA/FA)**

For exams from 1 September 2021
to 31 August 2022

Free access to eBook & additional digital content

Foundations in Accountancy/ ACCA

Financial Accounting (FFA/FA)

Practice & Revision Kit

For exams from 1 September 2021
to 31 August 2022

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Helping you with your revision

BPP Learning Media – ACCA Approved Content Provider

As an ACCA **Approved Content Provider**, BPP Learning Media gives you the **opportunity** to use revision materials reviewed by the ACCA examining team. By incorporating the ACCA examining team's comments and suggestions regarding the depth and breadth of syllabus coverage, the BPP Learning Media Practice & Revision Kit provides excellent, **ACCA-approved** support for your revision.

These materials are reviewed by the ACCA examining team. The objective of the review is to ensure that the material properly covers the syllabus and study guide outcomes, used by the examining team in setting the exams, in the appropriate breadth and depth. The review does not ensure that every eventuality, combination or application of examinable topics is addressed by the ACCA Approved Content. Nor does the review comprise a detailed technical check of the content as the Approved Content Provider has its own quality assurance processes in place in this respect.

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Selecting questions

We provide signposts to help you plan your revision, including a full **question index**.

Attempting mock exams

There are three mock exams that provide practice at coping with the pressures of the exam day. We strongly recommend that you attempt them under exam conditions. **Mock exam 1** is the ACCA Specimen Exam. **Mock exam 2** and **Mock exam 3** reflect the question styles and syllabus coverage of the exam.

Using your BPP Practice & Revision Kit

Aim of this Practice & Revision Kit

To provide the practice to help you succeed in the examination for FFA/FA *Financial Accounting*.

To pass the examination you need a thorough understanding in all areas covered by the syllabus and teaching guide.

Recommended approach

- Make sure you are able to answer questions on **everything** specified by the syllabus and teaching guide. You cannot make any assumptions about what questions may come up in your exam. The examining team aims to discourage 'question spotting'.
- Learning is an **active** process. Use the **DO YOU KNOW?** Checklists to test your knowledge and understanding of the topics covered in FFA/FA *Financial Accounting* by filling in the blank spaces. Then check your answers against the **DID YOU KNOW?** Checklists. Do not attempt any questions if you are unable to fill in any of the blanks – go back to your **BPP Workbook** and revise first.
- When you are revising a topic, think about the mistakes that you know that you should avoid by writing down **POSSIBLE PITFALLS** at the end of each **DO YOU KNOW?** Checklist.
- Once you have completed the checklists successfully, you should attempt the questions on that topic. All sections have a selection of **OBJECTIVE QUESTIONS** (including Multiple Choice Questions). Make good use of the **HELPING HANDS** provided to help you answer the questions.
- There is a mark allocation for each question. Each mark carries with it a time allocation of 1.2 minutes. A 2-mark question should therefore be completed in 2.4 minutes.
- 70% of the exam consists of individual **objective test questions**. You should attempt each bank of objective test questions to ensure you are familiar with their styles and to practise your technique. Skills checkpoint 1 Approach to Objective Test Questions will provide useful guidance on how best to approach these questions.
- The remaining 30% of the exam is a multi-task question, which is essentially a range of related objective test questions. Skills checkpoint 2 Approach to Multi-Task Questions will provide guidance on how to tackle these.
- Once you have completed all of the questions in the body of this Practice & Revision Kit, you should attempt the **MOCK EXAMS** under examination conditions. Check your answers against our answers to find out how well you did.

Passing the FFA/FA exam

Financial Accounting aims to develop your knowledge and understanding of the underlying principles, concepts and regulations relating to financial accounting. You will need to demonstrate technical proficiency in the use of double entry techniques, including the preparation of basic financial statements for incorporated and unincorporated entities, as well as simple consolidated financial statements for group entities. You also need to be able to conduct a basic interpretation of financial statements. If you plan to progress through the ACCA qualification, the skills you learn in FFA/FA will be built upon in the exams for *FR Financial Reporting* and *SBR Strategic Business Reporting*.

To access Foundations in Accountancy syllabi, visit the ACCA website: www.accaglobal.com

The exam

The *Financial Accounting* exam is a computer-based exam (CBE). All questions in the exam are compulsory. This means you cannot avoid any topic, but also means that you do not need to dedicate time in the exam deciding which questions to attempt.

Section A consists of 35 objective test (OT) questions worth two marks each and cover a broad range of syllabus topics. The OT questions can take the form of multiple choice, multiple response, number entry or multiple response matching. This means that the examining team is able to test most of the syllabus at each sitting, so you need to have revised right across the syllabus for this exam.

Section B consists of two multi-task questions (15 marks each) testing the candidates' understanding and application of financial accounting skills in more depth. In Section B candidates are required to provide answers which test their understanding and ability to draft financial statements. Candidates may be required to prepare financial statements for a single entity or for a group of companies. There may also be some element of ratio calculation/interpretation. You may not always be required to prepare the full financial statement and may instead be asked to complete a partial statement. In this situation there will be additional elements to the question. Candidates will be required to prepare the financial statements using a variety of number entries, pull down menus and multiple response matching.

Revision

This Practice and Revision kit has been reviewed by the FFA/FA examining team and contains the ACCA Specimen Exam, so if you just work through it to the end you would be very well prepared for the exam. You must also visit the ACCA website (www.accaglobal.com) to familiarise yourself with the CBE software. It is important to tackle questions under exam conditions. Allow yourself just the number of minutes shown next to the questions in the index and don't look at the answers until you have finished. Then correct your answer and go back to the Workbook for any topic you are having trouble with. Try the same questions again a week later – you will be surprised how much better you are getting. Doing the questions like this will really show you what you know, and will make the exam experience less worrying.

Doing the exam

If you have diligently done your revision you can pass this exam. There are a couple of points to bear in mind:

- Read the question properly.
- Don't spend more than the allotted time on each question. If you are having trouble with a question, use the 'flag for review' function in the exam software and carry on. You can come back to it at the end.

Approach to examining the syllabus

FFA/FA is a two-hour exam.

The exam is structured as follows:

	No of marks
Section A – 35 compulsory objective questions of 2 marks each	70
Section B – 2 compulsory multi-task questions of 15 marks each	<u>30</u>
	<u>100</u>

The computer-based examination

Computer-based examinations (CBEs) are available for the Foundations In Accountancy exams. The CBE exams for the first seven modules can be taken at any time, these are referred to as 'exams on demand'. The Option exams can be sat in June and December of each year, these are referred to as 'exams on sitting'. *Financial Accounting* is an 'exam on demand'. Computer-based examinations must be taken at an ACCA CBE Licensed Centre.

How do CBEs work?

- Questions are displayed on a monitor.
- Candidates enter their answer directly onto the computer.
- Candidates have two hours to complete the examination.
- Candidates are provided with a Provisional Result Notification showing their results before leaving the examination room.
- The CBE Licensed Centre uploads the results to the ACCA (as proof of the candidate's performance) within 72 hours.
- Candidates sitting the Option exams will receive their results approximately five weeks after the exams sitting once they have been marked by an expert.
- Candidates can check their exam status on the ACCA website by logging into myACCA.

Benefits

- **Flexibility** as the first seven modules, exams on demand, can be sat at any time.
- **Resits** for the first seven modules can also be taken at any time and there is no restriction on the number of times a candidate can sit a CBE.
- **Instant feedback** for the exams on demand as the computer displays the results at the end of the CBE.
- Results are notified to ACCA **within 72 hours**.

For more information on computer-based exams, visit the ACCA website:

www.accaglobal.com/gb/en/student/exam-entry-and-administration/computer-based-exams.html

Essential skills areas to be successful in the Financial Accounting exam

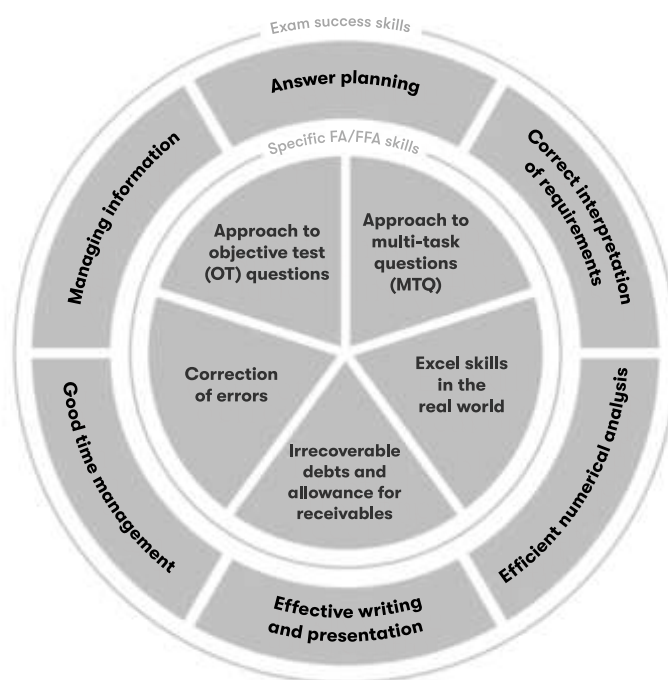
We think there are three areas you should develop in order to achieve exam success in Financial Accounting (FFA/FA).

- (1) Knowledge application

You will develop your technical knowledge as you work through the BPP Financial Accounting Workbook and this Practice & Revision Kit.

- (2) Specific FFA/FA skills
- (3) Exam success skills

These are shown in the diagram below:



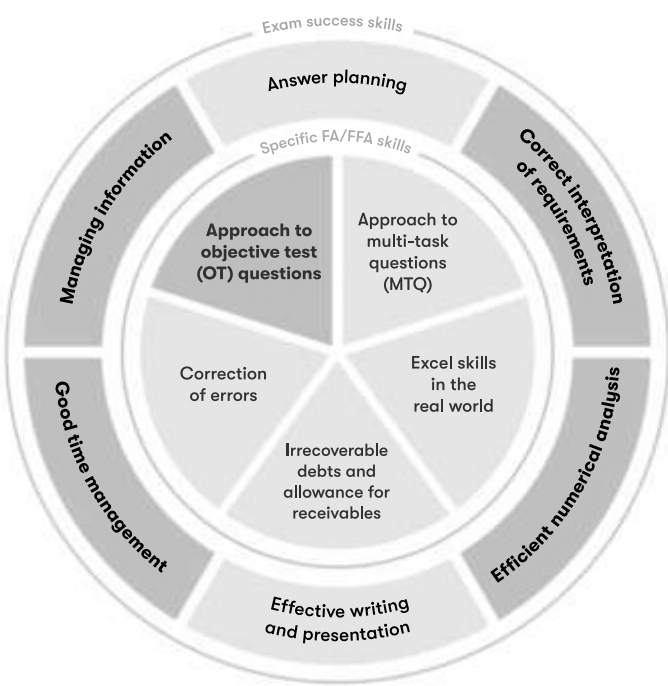
Specific Financial Accounting skills

Skill 1: Approach to OT Questions

As 70% of your marks will be gained by correctly answering objective test (OT) questions, you need to ensure that you are familiar with the different types of OT question and the best approach to tackling them in the exam.



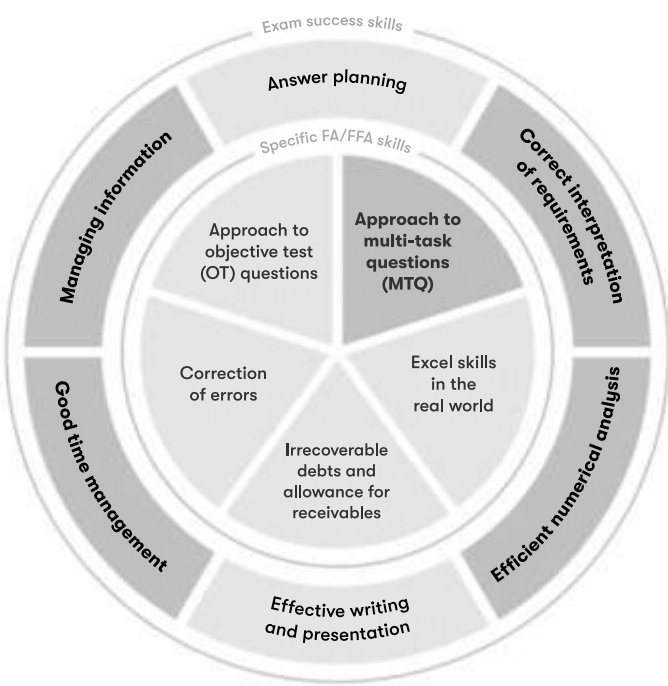
A step-by-step technique for ensuring that you approach the OT questions in the most efficient and effective way is outlined below.



Skill 1 is developed further in Skills Checkpoint 1 which is available in the Financial Accounting Workbook.

Skill 2: Approach to MTQs

Section B of your exam will contain two 15-mark multi-task (MT) questions. You need to understand how to approach these questions in the exam. A step-by-step technique for ensuring that you approach the MT questions in the most efficient and effective way is outlined below.

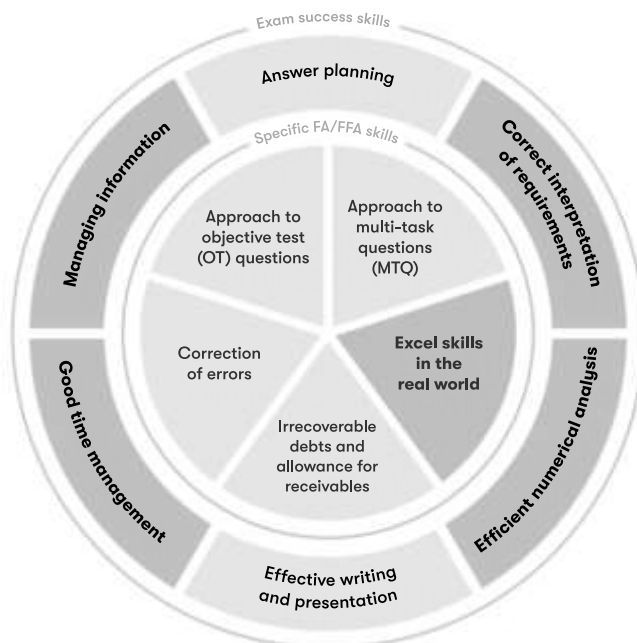


Skill 2 is developed further in Skills Checkpoint 2 which is available in the Financial Accounting Workbook.

Skill 3: Spreadsheet skills

You need to be able to use a spreadsheet efficiently and effectively to perform calculations and prepare basic financial statements. Whilst you will not use spreadsheets directly in the FA exam, it is important that you develop your spreadsheet skills to help you progress with your further studies.

A step-by-step technique for developing your spreadsheet skills is as follows.

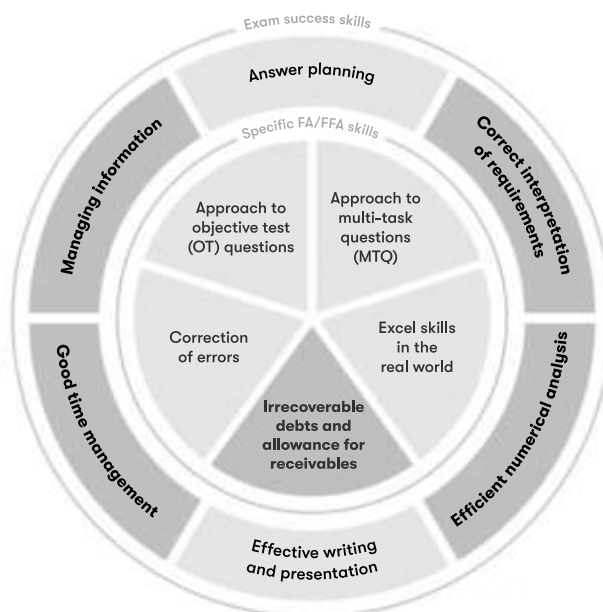


Skill 3 is developed further in Skills Checkpoint 3 which is available in the Financial Accounting Workbook.

Skill 4: Irrecoverable debts and the allowance for receivables

The FA examiner's reports frequently state that candidates find it difficult to account for irrecoverable debts and the allowance for receivables. This is a frequently examined area and therefore you should ensure you are confident with how to approach these questions in the exam.

A step-by-step approach is explained in the following.

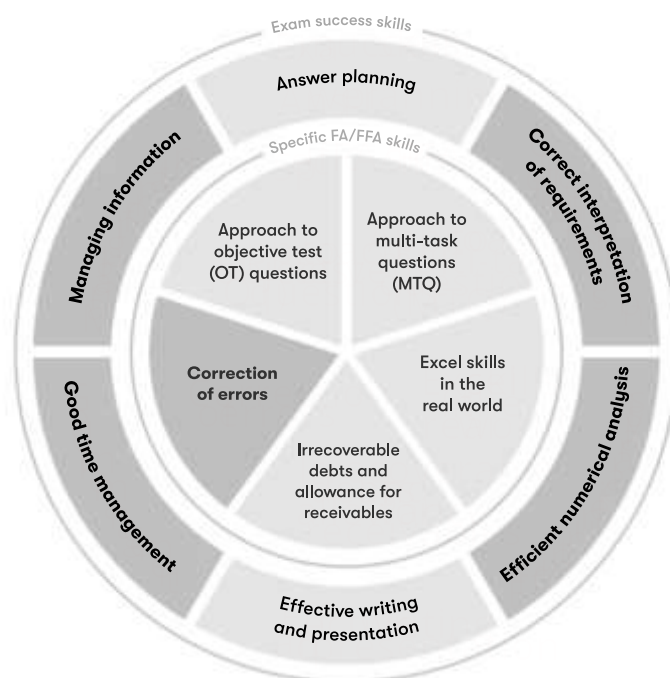


Skill 4 is developed further in Skills Checkpoint 4 which is available in the Financial Accounting Workbook.

Skill 5: Control accounts

The FA examiner's reports state that candidates find control account questions difficult. Control accounts is frequently examined and you must ensure you are confident with how to approach these questions in the exam.

A step-by-step approach is explained in the following.



Skill 5 is developed further in Skills Checkpoint 5 which is available in the Financial Accounting Workbook.

Exam success skills

Passing the FA exam requires more than applying syllabus knowledge and demonstrating the specific FA skills; it also requires the development of excellent exam techniques through question practice.

We consider the following six skills to be vital for exam success. The Skills Checkpoints show how each of these skills can be applied in the exam.

Exam success skill 1 – Managing information

Questions in the exam will present you with a lot of information. The skill is how you handle this information to make the best use of your time. The key is determining how you will approach the exam and then actively reading the questions.

The exam is 2 hours long. Consider the order in which you will attempt the questions; always attempt them in your order of preference. For example, you may want to tackle the multi-task question first. If you do take this approach, remember to adjust the time available for each question appropriately – see Exam success skill 6: Good time management.

Exam success skill 2 – Correct interpretation of the requirements

It is important you correctly identify the requirements. You should read the requirement first then go back and read the scenario, then the requirement again before considering the answer options. Reading the requirement first will give context for the scenario and may help you to pick the most appropriate information to answer the question.

Exam success skill 3 – Answer planning: Priorities, structure and logic

This skill requires the planning of the key aspects of an answer which accurately and completely responds to the requirement. This is particularly useful in the MTQ, where you will be presented with a lot of information in the scenario and will have a number of tasks to complete. You should read the information carefully and work out which bits of information will be required for each task.

Exam success skill 4 – Efficient numerical analysis

The majority of marks in FA will come from performing calculations. This involves selecting the correct amounts and rates from the question and using your calculator (or spreadsheet when practicing) to arrive at the correct answer. It is important that you pay attention to information such as depreciation rates, dates of purchase etc, in order to avoid losing marks on basic errors.

Exam success skill 5 – Effective writing and presentation

This is a general exam success skill that will not be directly examined in FA but is a skill you will need to develop as you work towards Financial Reporting. It is important that accountants can explain the appropriate accounting treatment for a transaction or event as well as being able to account for it. When revising for the FA exam, you might want to try writing a few explanations as a different way to test your knowledge of a particular area.

Exam success skill 6 – Good time management

This skill means planning your time across all the requirements so that all tasks have been attempted at the end of the 2 hours available and actively checking on time during your exam. This is so that you can flex your approach and prioritise requirements which, in your judgement, will generate the maximum marks in the available time remaining. The exam is 2 hours long, so you have 120 minutes to achieve 100 marks. That means you have 2.4 minutes for each OTQ and 18 minutes for each MTQ. Some narrative questions can be answered in less than 2.4 minutes, which will help you to 'bank' some time for more challenging numerical questions.

Keep an eye on the clock. You are aiming to answer all requirements to the best of your abilities, but be ready to be ruthless and move on if you are struggling with any particular question. Be aware that this is difficult to achieve in the early stages of your studies and be ready to let this skill develop over time.

Tackling multiple choice questions

MCQs are part of all Foundations in Accountancy exams.

The MCQs in your exam contain four possible answers. You have to **choose the option that best answers the question**. The incorrect options are called distracters. There is a skill in answering MCQs quickly and correctly. By practising MCQs you can develop this skill, giving you a better chance of passing the exam.

You may wish to follow the approach outlined below, or you may prefer to adapt it.

Step 1 Skim read all the MCQs and identify what appear to be the easier questions.

Step 2 Attempt each question – **starting with the easier questions** identified in Step 1. Read the question **thoroughly**. You may prefer to work out the answer before looking at the options, or you may prefer to look at the options at the beginning. Adopt the method that works best for you.

Step 3 Read the options and see if one matches your own answer. Be careful with numerical questions as the distracters are designed to match answers that incorporate common errors. Check that your calculation is correct. Have you followed the requirement exactly? Have you included every stage of the calculation?

Step 4 You may find that none of the options match your answer.

- Re-read the question to ensure that you understand it and are answering the requirement.
- Eliminate any obviously wrong answers.
- Consider which of the remaining answers is the most likely to be correct and select the option.

Step 5 If you are still unsure make a note and continue to the next question.

Step 6 Revisit unanswered questions. When you come back to a question after a break you often find you are able to answer it correctly straight away. If you are still unsure have a guess. You are not penalised for incorrect answers, so **never leave a question unanswered!**

After extensive practice and revision of MCQs, you may find that you recognise a question when you sit the exam. Be aware that the detail and/or requirement may be different. If the question seems familiar read the requirement and options carefully – do not assume that it is identical.

Using your BPP products

This Practice & Revision Kit gives you the question practice and guidance you need in the exam. Our other products can also help you pass:

- **Workbook** introduces and explains the knowledge required for your exam

You can purchase this product by visiting www.bpp.com/learning-media.

Questions



Do you know? – The context and purpose of financial reporting

Check that you can fill in the blanks in the statements below before you attempt any questions. If in doubt, you should go back to your BPP Workbook and revise first.

- F..... r is a way of recording, analysing and summarising financial data.
- F..... entities of whatever size or nature exist to make a p.....
- N..... entities exist for the achievement of specific objectives rather than to make a profit.
- P..... is the excess of over expenditure. When e..... exceeds the business is running at a l.....
- A s..... t..... is a business owned and run by one individual, perhaps employing one or two assistants and controlling their work.
- L l..... status means that the business's debts and the personal debts of the business's owners (shareholders) are legally separate.
- are arrangements between individuals to carry on business in common with a view to profit. Partnerships are governed by a
- Financial accounting is mainly a method of reporting the and of a business. Financial accounts provide information.
- There are various groups of people who need about the activities of a business.
- Those charged with g..... of a company are responsible for the preparation of the financial statements.
- The statement of financial position is simply a list of all the a..... owned and all the l..... owed by a business as at a particular date.
- An is a present economic resource controlled by an entity as a result of past events.
- A is a present obligation of the entity to transfer an economic resource as a result of past events.
- E..... is the residual interest in the assets of the entity after deducting all its liabilities.
- A statement of profit or loss is a record of generated and incurred over a given period.
- Accounting standards were developed to try to address s.....y
- The IASB develops
- The main objectives of the IFRS Foundation are to:
 - a single set of high quality, understandable, enforceable and globally accepted l..... through its standard-setting body, the l.....
 - Promote the and rigorous application of those standards
 - Take account of the financial reporting needs of emerging economies and and entities
 - Bring about c..... of national accounting standards and IFRSs to high quality solutions.

Did you know? – The context and purpose of financial reporting

Could you fill in the blanks? The answers are in bold. Use this page for revision purposes as you approach the exam.

- **Financial reporting** is a way of recording, analysing and summarising financial data.
- **For-profit** entities of whatever size or nature exist to make a **profit**.
- **Not-for-profit** entities exist for the achievement of specific objectives rather than to make a profit.
- **Profit** is the excess of **income** over expenditure. When **expenditure** exceeds **revenue**, the business is running at a **loss**.
- A **sole tradership** is a business owned and run by one individual, perhaps employing one or two assistants and controlling their work.
- **Limited liability** status means that the business's debts and the personal debts of the business's owners (shareholders) are legally separate.
- **Partnerships** are arrangements between individuals to carry on business in common with a view to profit. Partnerships are governed by a **partnership agreement**.
- Financial accounting is mainly a method of reporting the **financial performance** and **financial position** of a business. Financial accounts provide **historical** information.
- There are various groups of people who need **information** about the activities of a business.
- Those charged with **governance** of a company are responsible for the preparation of the financial statements.
- The statement of financial position is simply a list of all the **assets** owned and all the **liabilities** owed by a business as at a particular date.
- An **asset** is a present economic resource controlled by an entity as a result of past events.
- A **liability** is a present obligation of the entity to transfer an economic resource as a result of past events.
- **Equity** is the residual interest in the assets of the entity after deducting all its liabilities.
- A statement of profit or loss is a record of **income** generated and **expenditure** incurred over a given period.
- Accounting standards were developed to try to address **subjectivity**.
- The IASB develops International Financial Reporting Standards (IFRSs).
- The main objectives of the IFRS Foundation are to:
 - **Develop** a single set of high quality, understandable, enforceable and globally accepted **international financial reporting standards (IFRSs)** through its standard-setting body, the **IASB**
 - Promote the **use** and rigorous application of those standards
 - Take account of the financial reporting needs of emerging economies and **small** and **medium-sized** entities (**SMEs**)
 - Bring about **convergence** of national accounting standards and IFRSs to high quality solutions.

1 The context and purpose of financial reporting**34 mins**

1.1 Who issues International Financial Reporting Standards?

- ☐ The IFRS Advisory Committee
☐ The stock exchange
☐ The International Accounting Standards Board
☐ The government

(2 marks)

1.2 Which groups of people are most likely to be interested in the financial statements of a sole trader?

- 1 Shareholders of the entity
 2 The business's bank manager
 3 The tax authorities
 4 Financial analysts
☐ 1 and 2 only
☐ 2 and 3 only
☐ 2, 3 and 4 only
☐ 1, 2 and 3 only

(2 marks)

1.3 Identify, by indicating the relevant box in the table below, whether each of the following statements is true or false.

A supplier of goods on credit is interested only in the statement of financial position, ie an indication of the current state of affairs.	True	False
The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions.	True	False

(2 marks)

1.4 Which of the following are advantages of trading as a limited liability company?

- 1 Operating as a limited liability company makes raising finance easier because additional shares can be issued to raise additional cash.
 2 Operating as a limited liability company is more risky than operating as a sole trader because the shareholders of a business are liable for all the debts of the business whereas the sole trader is only liable for the debts up to the amount he has invested.
☐ 1 only
☐ 2 only
☐ Both 1 and 2
☐ Neither 1 or 2

(2 marks)

- 1.5 Which of the following best describes corporate governance?
- ☐ Corporate governance is the system of rules and regulations surrounding financial reporting.
 - ☐ Corporate governance is the system by which companies and other entities are directed and controlled.
 - ☐ Corporate governance is carried out by the finance department in preparing the financial statements.
 - ☐ Corporate governance is the system by which an entity monitors its impact on the natural environment.
- (2 marks)**
-

- 1.6 Identify which of the following statements are true.
- 1 The directors of a company are ultimately responsible for the preparation of financial statements, even if the majority of the work on them is performed by the finance department.
 - 2 If financial statements are audited, then the responsibility for those financial statements instead falls on the auditors instead of the directors.
 - 3 There are generally no laws surrounding the duties of directors in managing the affairs of a company.
- ☐ 1 only
 - ☐ 2 only
 - ☐ 2 and 3 only
 - ☐ 1 and 3 only
- (2 marks)**
-

- 1.7 Which of the following statements correctly describes the contents of the statement of financial position?
- ☐ A list of ledger balances shown in debit and credit columns
 - ☐ A list of all the assets owned and all the liabilities owed by a business
 - ☐ A record of income generated and expenditure incurred over a given period
 - ☐ A record of the amount of cash generated and used by a company in a given period
- (2 marks)**
-

- 1.8 Which of the following statements correctly describes the contents of the statement of profit or loss?
- ☐ A list of ledger balances shown in debit and credit columns
 - ☐ A list of all the assets owned and all the liabilities owed by a business
 - ☐ A record of income generated and expenditure incurred over a given period
 - ☐ A record of the amount of cash generated and used by a company in a given period
- (2 marks)**
-

1.9 Which of the following are true of partnerships?

- 1 The partners' individual exposure to debt is limited.
- 2 Financial statements for the partnership by law must be produced and made public.
- 3 A partnership is not a separate legal entity from the partners themselves.
- ☐ 1 and 2 only
- ☐ 2 only
- ☐ 3 only
- ☐ 1 and 3 only

(2 marks)

1.10 Which of the following statements is/are true?

- 1 Directors of companies have a duty of care to show reasonable competence in their management of the affairs of a company.
- 2 Directors of companies must act honestly in what they consider to be the best interest of the company.
- 3 A director's main aim should be to create wealth for the shareholders of the company.
- ☐ 1 and 2 only
- ☐ 2 only
- ☐ 1, 2 and 3
- ☐ 1 and 3 only

(2 marks)

1.11 Which of the following statements is/are true?

- 1 The IFRS Interpretations Committee is a forum for the International Accounting Standards Board (IASB) to consult with the outside world.
- 2 The IFRS Foundation produces IFRSs. The IFRS Foundation is overseen by the IASB.
- 3 One of the objectives of the IFRS Foundation is to bring about convergence of national accounting standards and IFRSs.
- ☐ 1 and 3 only
- ☐ 2 only
- ☐ 2 and 3 only
- ☐ 3 only

(2 marks)

1.12 What is the role of the International Accounting Standards Board (IASB)?

- ☐ Oversee the standard setting and regulatory process
- ☐ Formulate international financial reporting standards
- ☐ Review defective accounts
- ☐ Control the accountancy profession

(2 marks)

- 1.13 Which of the following is **NOT** an objective of the IFRS Foundation?
- ☐ Through the International Accounting Standards Board (IASB), develop a single set of globally accepted International Financial Reporting Standards (IFRSs)
 - ☐ Promote the use and rigorous application of International Financial Reporting Standards (IFRSs)
 - ☐ Ensure IFRSs focus primarily on the needs of global, multi-national organisations
 - ☐ Bring about the convergence of national accounting standards and IFRSs
- (2 marks)
-

- 1.14 Which of the following statements correctly describes how International Financial Reporting Standards (IFRSs) should be used?
- ☐ To provide examples of best financial reporting practice for national bodies who develop their own requirements
 - ☐ To ensure high ethical standards are maintained by financial reporting professionals internationally
 - ☐ To facilitate the enforcement of a single set of global financial reporting standards
 - ☐ To prevent national bodies from developing their own financial reporting standards
- (2 marks)
-

(Total = 28 marks)

Do you know? – The qualitative characteristics of financial information

Check that you can fill in the blanks in the statements below before you attempt any questions. If in doubt, you should go back to your BPP Workbook and revise first.

- In preparing financial statements, accountants follow certain fundamental **a**.....
- The IASB's **C**...../ **F**.....**k** provides the basis for its IFRSs.
- The main underlying assumption is
- The *Conceptual Framework* states that characteristics are the attributes that make the information provided in financial statements useful to users.
- The four enhancing qualitative characteristics are,, and
- Other important qualitative characteristics and concepts include **m**....., **p**....., **c**..... and the business concept.
- A between qualitative characteristics is often necessary, the aim being to achieve an appropriate balance to meet the objective of financial statements.

Did you know? – The qualitative characteristics of financial information

Could you fill in the blanks? The answers are in bold. Use this page for revision purposes as you approach the exam.

- In preparing financial statements, accountants follow certain fundamental **assumptions**.
- The IASB's *Conceptual Framework* provides the basis for its IFRSs.
- The main underlying assumption is **going concern**.
- The *Conceptual Framework* states that **qualitative** characteristics are the attributes that make the information provided in financial statements useful to users.
- The four enhancing qualitative characteristics are **understandability, verifiability, timeliness** and **comparability**.
- Other important qualitative characteristics and concepts include **materiality, prudence, consistency** and the business **entity** concept.
- A **trade off** between qualitative characteristics is often necessary, the aim being to achieve an appropriate balance to meet the objective of financial statements.

2 The qualitative characteristics of financial information 34 mins

2.1 Which accounting concept should be considered if the owner of a business takes goods from inventory for their own personal use?

- ☐ The materiality concept
- ☐ The accruals concept
- ☐ The going concern concept
- ☐ The business entity concept

(2 marks)

2.2 Sales revenue should be recognised when goods and services have been supplied to the customer; costs are incurred when goods and services have been received.

Which accounting concept governs the above?

- ☐ The business entity concept
- ☐ The materiality concept
- ☐ The accruals concept
- ☐ The duality concept

(2 marks)

2.3 Which accounting concept states that omitting or misstating this information could influence users of the financial statements?

- ☐ The consistency concept
- ☐ The accruals concept
- ☐ The materiality concept
- ☐ The going concern concept

(2 marks)

2.4 According to the IASB's *Conceptual Framework*, which **TWO** of the following are part of faithful representation?

- 1 Neutrality
- 2 Relevance
- 3 Fair presentation
- 4 Free from material error

- ☐ 1 and 2
- ☐ 2 and 3
- ☐ 1 and 4
- ☐ 3 and 4

(2 marks)

2.5 Which of the following accounting concepts means that similar items should receive a similar accounting treatment?

- ☐ Conformity
- ☐ Accruals
- ☐ Matching
- ☐ Consistency

(2 marks)

2.6 Listed below are some characteristics of financial information.

- 1 Relevance
- 2 Consistency
- 3 Faithful representation
- 4 Accuracy

Which **TWO** of these are qualitative characteristics of financial information?

(2 marks)

(2 marks)

(2 marks)

- 2.9 Which of the following statements about accounting concepts and the characteristics of financial information are correct?
- 1 The concept of accruals requires transactions to be reflected in the financial statements once the cash or its equivalent is received or paid.
 - 2 Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
 - 3 Based on faithful representation, it may sometimes be necessary to exclude material information from financial statements due to difficulties establishing an accurate figure.
- ☐ 1 only
- ☐ 1 and 2 only
- ☐ 2 only
- ☐ 2 and 3 only (2 marks)
-
- 2.10 The IASB's *Conceptual Framework* gives six qualitative characteristics of financial information. What are these six characteristics?
- ☐ Relevance, Faithful representation, Comparability, Verifiability, Timeliness and Understandability
- ☐ Accuracy, Faithful representation, Comparability, Verifiability, Timeliness and Understandability
- ☐ Relevance, Faithful representation, Consistency, Verifiability, Timeliness and Understandability
- ☐ Relevance, Comparability, Consistency, Verifiability, Timeliness and Understandability (2 marks)
-
- 2.11 Which one of the following is **NOT** a qualitative characteristic of financial information according to the *Conceptual Framework*?
- ☐ Faithful representation
- ☐ Relevance
- ☐ Timeliness
- ☐ Accruals (2 marks)
-
- 2.12 According to the IASB's *Conceptual Framework* which of the following is **NOT** an objective of financial statements?
- ☐ Providing information regarding the financial position of a business
- ☐ Providing information regarding the performance of a business
- ☐ Enabling users to assess the performance of management to aid decision making
- ☐ Providing reliable investment advice (2 marks)
-

- 2.13 Identify, by indicating the relevant box in the table below, whether each of the following statements is correct or incorrect.

Companies should never change the presentation or classification of items in their financial statements, even if there is a significant change in the nature of operations.	Correct	Incorrect
Companies should create provisions in times of company growth to be utilised in more difficult times, to smooth profits.	Correct	Incorrect

(2 marks)

- 2.14 Which of the following statements about prudence is correct?

- ☐ Prudence requires assets to be carried at their lowest possible valuation.
- ☐ When prudence is applied, income is not recognised until the cash has been received.
- ☐ A prudent decision will mean lower expenditure.
- ☐ Prudence does not allow for overstatement of liabilities.

(2 marks)

(Total = 28 marks)

Do you know? – The use of double entry and accounting systems

Check that you can fill in the blanks in the statements below before you attempt any questions. If in doubt, you should go back to your BPP Workbook and revise first.

- Business transactions are recorded on **s**..... **d**..... Examples include sales and purchase orders, and
- Books of are books in which we first record transactions.
- The main books of prime entry are:
 - (a) day book
 - (b) day book
 - (c) day book
 - (d) day book
 - (e) **J**.....
 - (f) book
 - (g) book
- Entries in the are totalled and analysed before posting to the **n**..... ledger.
- The and ledgers contain the personal accounts of individual customers and suppliers. They do not normally form part of the double-entry system.
- The **b**..... **e**..... concept means that a business is always treated separately from its owner(s).
- The accounting equation is: = + LIABILITIES – + PROFIT
- Trade accounts payable are **l**..... Trade accounts receivable are **a**.....
- In double entry bookkeeping every transaction is recorded so that every is balanced by a
- A debit entry will:
 - an asset
 - a liability
 - an expense
- A credit entry will:
 - an asset
 - a liability
 - income
- A trial balance can be used to test the of the double entry accounting records.
- A and ledger account is opened up to gather all items relating to income and expenses. When rearranged, the items make up the

Do you know? – The use of double entry and accounting systems

Could you fill in the blanks? The answers are in bold. Use this page for revision purposes as you approach the exam.

- Business transactions are recorded on **source documents**. Examples include sales and purchase orders, **invoices** and **credit notes**.
- Books of **prime entry** are books in which we first record transactions.
- The main books of prime entry are:
 - (a) **Sales** day book
 - (b) **Purchase** day book
 - (c) **Sales returns** day book
 - (d) Purchase returns day book
 - (e) Journal
 - (f) **Cash** book
 - (g) Petty cash book
- Entries in the **day books** are totalled and analysed before posting to the **nominal** ledger.
- The **receivables** and **payables** ledgers contain the personal accounts of individual customers and suppliers. They do not normally form part of the double-entry system.
- The **business entity** concept means that a business is always treated separately from its owner(s).
- The accounting equation is: **ASSETS = CAPITAL + LIABILITIES – DRAWINGS + PROFIT**
- Trade accounts payable are **liabilities**. Trade accounts receivable are **assets**.
- In double entry bookkeeping every transaction is recorded **twice** so that every **debit** is balanced by a **credit**.
- A debit entry will:
 - **Increase** an asset
 - **Decrease** a liability
 - **Increase** an expense
- A credit entry will:
 - **Decrease** an asset
 - **Increase** a liability
 - **Increase** income
- A trial balance can be used to test the **accuracy** of the double entry accounting records.
- A **profit** and **loss** ledger account is opened up to gather all items relating to income and expenses. When rearranged, the items make up the **statement of profit or loss**.

3 Double entry bookkeeping I

46 mins

3.1 Which one of the following can the accounting equation can be rewritten as?

- ☐ Assets + profit – drawings – liabilities = closing capital
- ☐ Assets – liabilities – drawings = opening capital + profit
- ☐ Assets – liabilities – opening capital + drawings = profit
- ☐ Assets – profit – drawings = closing capital – liabilities

(2 marks)

3.2 A trader's net profit for the year may be computed by using which of the following formulae?

- ☐ Opening capital + drawings – capital introduced – closing capital
- ☐ Closing capital + drawings – capital introduced – opening capital
- ☐ Opening capital – drawings + capital introduced – closing capital
- ☐ Opening capital – drawings – capital introduced – closing capital

(2 marks)

3.3 The profit earned by a business in 20X7 was \$72,500. The proprietor injected new capital of \$8,000 during the year and withdrew goods for their private use which had cost \$2,200.

If net assets at the beginning of 20X7 were \$101,700, what were the closing net assets?

- ☐ \$35,000
- ☐ \$39,400
- ☐ \$168,400
- ☐ \$180,000

(2 marks)

3.4 The profit made by a business in 20X7 was \$35,400. The proprietor injected new capital of \$10,200 during the year and withdrew a monthly salary of \$500.

If net assets at the end of 20X7 were \$95,100, what was the proprietor's capital at the beginning of the year?

\$	
----	--

(2 marks)

- 3.5 A sole trader took some goods costing \$800 from inventory for their own use. The normal selling price of the goods is \$1,600.

Which of the following journal entries would correctly record this?

	DEBIT	CREDIT	
	\$	\$	
<input type="radio"/> Inventory account	800		
Purchases account		800	
<input type="radio"/> Drawings account	800		
Purchases account		800	
<input type="radio"/> Sales account	1,600		
Drawings account		1,600	
<input type="radio"/> Drawings account	800		
Sales account		800	(2 marks)

- 3.6 A business can make a profit and yet have a reduction in its bank balance. Which of the following might cause this to happen?

- ☐ The sale of non-current assets at a loss
- ☐ The charging of depreciation in the statement of profit or loss
- ☐ The lengthening of the period of credit given to customers
- ☐ The lengthening of the period of credit taken from suppliers (2 marks)

- 3.7 The net assets of Altese, a trader, at 1 January 20X2 amounted to \$128,000. During the year to 31 December 20X2 Altese introduced a further \$50,000 of capital and made drawings of \$48,000. At 31 December 20X2 Altese's net assets totalled \$184,000.

What is Altese's total profit or loss for the year ended 31 December 20X2?

- ☐ \$54,000 profit
- ☐ \$54,000 loss
- ☐ \$42,000 loss
- ☐ \$58,000 profit (2 marks)

- 3.8 Jones Co has the following transactions:

- (a) Payment of \$400 to J Bloggs for a cash purchase
- (b) Payment of \$250 to J Doe in respect of an invoice for goods purchased last month

What are the correct ledger entries to record these transactions?

<input type="radio"/>	DEBIT Cash	\$650	
	CREDIT Purchases		\$650
<input type="radio"/>	DEBIT Purchases	\$650	
	CREDIT Cash		\$650
<input type="radio"/>	DEBIT Purchases	\$400	
	DEBIT Trade Payables	\$250	
	CREDIT Cash		\$650
<input type="radio"/>	DEBIT Cash	\$650	
	CREDIT Trade Payables		\$250
	CREDIT Purchases		\$400

(2 marks)

3.9 T Tallon had the following transactions:

- (a) Sale of goods on credit for \$150 to F Rogit
- (b) Return of goods from B Blendigg originally sold for \$300 in cash to B Blendigg

What are the correct ledger entries to record these transactions?

- ☐ DEBIT Receivables \$150
DEBIT Sales Returns \$300
CREDIT Sales \$150
CREDIT Cash \$300
- ☐ DEBIT Sales \$150
DEBIT Cash \$300
CREDIT Receivables \$150
CREDIT Sales Returns \$300
- ☐ DEBIT Receivables \$450
CREDIT Sales \$150
CREDIT Sales Returns \$300
- ☐ DEBIT Sales Returns \$300
DEBIT Sales \$150
CREDIT Cash \$450 **(2 marks)**

3.10 Which of the following documents should accompany a return of goods to a supplier?

- ☐ Debit note
- ☐ Remittance advice
- ☐ Purchase invoice
- ☐ Credit note **(2 marks)**

3.11 Which of the following are books of prime entry?

- 1 Sales day book
- 2 Cash book
- 3 Journal
- 4 Purchase ledger
- ☐ 1, 2 and 3 only
- ☐ 1, 2 and 4 only
- ☐ 3 and 4 only
- ☐ All of them **(2 marks)**

3.12 In which book of prime entry will a business record debit notes in respect of goods which have been sent back to suppliers?

- ☐ The sales returns day book
- ☐ The cash book
- ☐ The purchase returns day book
- ☐ The purchase day book **(2 marks)**

3.13 Giant Co's motor vehicles at cost account at 30 June 20X6 is as follows:

MOTOR VEHICLES – COST

	\$		\$
Balance b/d	150,500	Disposal	85,000
Additions	<u>120,950</u>	Balance c/d	<u>186,450</u>
	<u>271,450</u>		<u>271,450</u>

What opening balance should be included in the following period's trial balance for motor vehicles – cost at 1 July 20X6?

- ☐ \$271,450 DEBIT
- ☐ \$271,450 DEBIT
- ☐ \$186,450 CREDIT
- ☐ \$186,450 DEBIT

(2 marks)

3.14 Billing Co's trade payables account at 30 September 20X1 is as follows:

TRADE PAYABLES ACCOUNT

	\$		\$
Cash at bank	21,600	Balance b/d	14,000
Balance c/d	<u>11,900</u>	Purchases	<u>19,500</u>
	<u>33,500</u>		<u>33,500</u>

What was the balance for trade payables in the trial balance at 1 October 20X0?

- ☐ \$14,000 DEBIT
- ☐ \$14,000 CREDIT
- ☐ \$11,900 DEBIT
- ☐ \$11,900 CREDIT

(2 marks)

3.15 Which of the following would be recorded in the sales day book?

- ☐ Cash received
- ☐ Sales invoices
- ☐ Credit notes received
- ☐ Trade discounts

(2 marks)

- 3.16 Identify, by indicating the relevant box in the table below, whether each of the following statements is true or false.

A debit records an increase in liabilities.	True	False
A debit records a decrease in assets.	True	False
A credit records an increase in liabilities.	True	False
A credit records an decrease in capital.	True	False

(2 marks)

- 3.17 How is the total of the purchases day book posted to the nominal ledger?

- ☐ Debit purchases, Credit cash
- ☐ Debit payables control, Credit purchases
- ☐ Debit cash, Credit purchases
- ☐ Debit purchases, Credit payables control

(2 marks)

- 3.18 Which one of the following statements about an imprest system of petty cash is correct?

- ☐ An imprest system for petty cash controls small cash expenditures because a fixed amount is paid into petty cash at the beginning of each period.
- ☐ The imprest system provides a control over petty cash spending because the amount of cash held in petty cash at any time must be equal to the value of the petty cash vouchers for the period.
- ☐ An imprest system for petty cash can operate without the need for petty cash vouchers or receipts for spending.
- ☐ An imprest system for petty cash helps with management of small cash expenditures and reduces the risk of fraud.

(2 marks)

- 3.19 Which one of the following provides evidence that an item of expenditure on petty cash has been approved or authorised?

- ☐ Petty cash voucher
- ☐ Record of the transaction in the petty cash book
- ☐ Receipt for the expense
- ☐ Transfer of cash from the bank account into petty cash

(2 marks)

(Total = 38 marks)

4 Double entry bookkeeping II

43 mins

The following information is relevant for Questions 4.1 and 4.2.

On 1 May 20X9 Marshall's cash book showed a cash balance of \$224 and an overdraft of \$336. During the week ended 6 May the following transactions took place.

May 1	Sold \$160 of goods to P Dixon on credit.
May 1	Withdrew \$50 of cash from the bank for business use.
May 2	Purchased goods priced at \$380 from A Clarke, on credit, less 15% trade discount.
May 2	Repaid a debt of \$120 owing to R Hill, taking advantage of a 10% settlement discount. The payment was by cheque.
May 3	Sold \$45 of goods for cash.
May 4	Sold \$80 of goods to M Maguire on credit, offering a 12.5% discount if payment made within 7 days. Marshall expects Maguire to take up this discount.
May 4	Paid a telephone bill of \$210 by cheque.
May 4	Purchased \$400 of goods on credit from D Daley.
May 5	Received a cheque from H Larkin for \$180.
May 5	Sold \$304 of goods to M Donald on credit.
May 5	Purchased \$135 of goods from Honour Co by cheque.
May 6	Received a cheque from D Randle for \$482.
May 6	Purchased \$100 of goods on credit from G Perkins.

4.1 What is the total of the sales day book?

£	
---	--

(2 marks)

4.2 What is the total of the purchases day book?

£	
---	--

(2 marks)

4.3 Smith Co has the following transactions:

- (a) Purchase of goods on credit from T Rader: \$450
- (b) Return of goods purchased on credit last month to T Rouble: \$700

What are the correct ledger entries to record these transactions?

<input type="radio"/>	DEBIT Purchases	\$450	
	DEBIT Purchase Returns	\$700	
	CREDIT Cash		\$450
	CREDIT Trade Payables		\$700
<input type="radio"/>	DEBIT Purchases	\$450	
	DEBIT Trade Payables	\$700	
	CREDIT Purchase Returns		\$1,150
<input type="radio"/>	DEBIT Purchases	\$450	
	DEBIT Trade Payables	\$250	
	CREDIT Purchase Returns		\$700
<input type="radio"/>	DEBIT Purchase Returns	\$700	
	DEBIT Purchases	\$450	
	CREDIT Trade Payables		\$1,150

(2 marks)

4.4 Mew Ling has the following transactions:

- (a) Receipt of cash from R Singh in respect of an invoice for goods sold three weeks ago
- (b) Receipt of cash from S Kalu for cash sales

What are the ledger entries required to record the above transactions?

- ☐ DEBIT Cash
CREDIT Sales
- ☐ DEBIT Cash
CREDIT Sales
CREDIT Trade Receivables
- ☐ DEBIT Sales
CREDIT Cash
- ☐ DEBIT Trade Receivables
DEBIT Sales
CREDIT Cash

(2 marks)

4.5 How is the total of the sales day book recorded in the nominal ledger?

- | <i>DEBIT</i> | <i>CREDIT</i> |
|--|--------------------------------|
| <input type="radio"/> Receivables
Ledger | Receivables
Control Account |
| <input type="radio"/> Receivables
Control Account | Receivables
Ledger |
| <input type="radio"/> Sales | Receivables
Control Account |
| <input type="radio"/> Receivables
Control Account | Sales |

(2 marks)

4.6 Identify, by indicating the relevant box in the table below, whether each of the statements is true or false.

A debit entry in the cash book will increase an overdraft in the accounts.	True	False
A debit entry in the cash book will increase a bank balance in the accounts.	True	False

(2 marks)

- 4.7 An accountant has inserted all the relevant figures into the trade payables account, but has not yet balanced off the account.

TRADE PAYABLES ACCOUNT

	\$		\$
Cash at bank	100,750	Balance b/d	250,225
		Purchases	325,010

Assuming there are no other entries to be made, other than to balance off the account, what is the closing balance on the trade payables account?

- ☐ \$474,485 DEBIT
- ☐ \$575,235 DEBIT
- ☐ \$474,485 CREDIT
- ☐ \$575,235 CREDIT

(2 marks)

- 4.8 You are given the following information:

Trade receivables at 1 January 20X3	\$10,000
Trade receivables at 31 December 20X3	\$9,000
Total receipts during 20X3 (including cash sales of \$5,000)	\$85,000

What are sales on credit during 20X3?

- ☐ \$81,000
- ☐ \$86,000
- ☐ \$79,000
- ☐ \$84,000

(2 marks)

- 4.9 A business sells \$100 worth of goods to a customer, the customer pays \$50 in cash immediately and will pay the remaining \$50 in 30 days' time.

What is the double entry to record the purchase in the customer's accounting records?

- ☐ DEBIT cash \$50, CREDIT payables \$50, CREDIT purchases \$50
- ☐ DEBIT payables \$50, DEBIT cash \$50, CREDIT purchases \$100
- ☐ DEBIT purchases \$100, CREDIT payables \$50, CREDIT cash \$50
- ☐ DEBIT purchases \$100, CREDIT cash \$100

(2 marks)

- 4.10 Tin Co purchases \$250 worth of metal from Steel Co. Tin Co agrees to pay Steel Co in 60 days' time.

From the list of tokens below, identify the tokens needed to record the correct entries in Steel Co's books.

TOKEN		DEBIT ENTRY	CREDIT ENTRY
Sales \$250		Debit entry	
Receivables \$250			Credit entry
Purchases \$250			
Payables \$250			
Cash \$250			

(2 marks)

- 4.11 The following totals appear in the day books for March 20X8.

	\$
Sales day book	40,000
Purchases day book	20,000
Returns inwards day book	2,000
Returns outward day book	4,000

Opening and closing inventories are both \$3,000. What is the gross profit for March 20X8?

- ☐ \$22,000
☐ \$24,000
☐ \$20,000
☐ \$18,000

(2 marks)

- 4.12 William's trial balance at 30 September 20X5 includes the following balances:

Trade receivables \$75,943

Receivables allowance \$4,751

How should these balances be reported in William's statement of financial position as at 30 September 20X5?

- ☐ An asset of \$71,192
☐ An asset of \$75,943 and a liability of \$4,751
☐ A liability of \$71,192
☐ A liability of \$75,943 and an asset of \$4,751

(2 marks)

- 4.13 A trial balance is made up of a list of debit balances and credit balances.

Which of the following statements is correct?

- ☐ Every debit balance represents an expense.
☐ Assets are represented by debit balances.
☐ Liabilities are represented by debit balances.
☐ Income is included in the list of debit balances.

(2 marks)

- 4.14 At 30 November 20X5 Jenny had a bank loan of \$8,500 and a balance of \$678 in hand in her bank account.

How should these amounts be recorded on Jenny's opening trial balance at 1 December 20X5?

- ☐ DEBIT \$7,822
☐ CREDIT \$7,822
☐ CREDIT \$8,500 and DEBIT \$678
☐ DEBIT \$8,500 and CREDIT \$678

(2 marks)

- 4.15 Bert has extracted the following list of balances from his general ledger at 31 October 20X5:

	\$
Sales	258,542
Opening inventory	9,649
Purchases	142,958
Expenses	34,835
Non-current assets (carrying amount)	63,960
Receivables	31,746
Payables	13,864
Cash at bank	1,783
Capital	12,525

What is the total of the debit balances in Bert's trial balance at 31 October 20X5?

- ☐ \$267,049
☐ \$275,282
☐ \$283,148
☐ \$284,931

(2 marks)

- 4.16 At 31 October 20X6 Roger's trial balance included the following balances:

	\$
Machinery at cost	12,890
Accumulated depreciation	8,950
Inventory	5,754
Trade receivables	11,745
Trade payables	7,830
Bank overdraft	1,675
Cash at bank	150

What is the value of Roger's current assets at 31 October 20X6?

- ☐ \$17,649
☐ \$17,499
☐ \$15,974
☐ \$13,734

(2 marks)

- 4.17 Which of the following statements does **NOT** describe a way in which an effective accounting system facilitates the provision of useful accounting information?
- ☐ By requiring authorisation in line with organisational policies
 - ☐ By processing and recording transactions in accordance with accounting rules
 - ☐ By preventing transactions from being processed inaccurately
 - ☐ By enabling transactions to be recorded as necessary to permit preparation of financial statements
- (2 marks)**

- 4.18 Identify, by indicating the relevant box in the table below, whether each of the statements is true or false.

Cash purchases are recorded in the purchases day book.	True	False
The sales day book is used to keep a list of invoices received from suppliers.	True	False

(2 marks)

(Total = 36 marks)

Do you know? – Recording transactions and events

Check that you can fill in the blanks in the statements below before you attempt any questions. If in doubt, you should go back to your BPP Workbook and revise first.

- S..... t..... is an indirect tax levied on the sale of goods and services.
- R..... businesses charge sales tax on sales and suffer sales tax on purchases.
- The c..... of g..... s..... is calculated as: Opening inventory + purchases – closing inventory.
- Carriage is included in the cost of purchases. Carriage is a selling expense.
- The value of inventories is calculated at the l..... of c..... and n..... r..... v.....
- The cost of inventories can be arrived at by using or
- A..... expenditure is expenditure which forms part of the cost of non-current assets on the statement of financial position. O..... expenditure is expenditure incurred for the purpose of the trade or to maintain non-current assets, and this is shown on the statement of profit or loss.
- The of a non-current asset, less its estimated residual value, is allocated fairly between accounting periods by means of d.....
- D..... costs must be capitalised as an i..... asset if the criteria in IAS 38 are satisfied.
- A..... are expenses which relate to an accounting period but have not yet been paid for. They are shown in the statement of financial position as a l.....
- P..... are expenses which have already been paid but relate to a future accounting period. They are shown in the statement of financial position as an
- I..... debts are specific debts owed to a business which it decides are never going to be paid. They are written off as an in the statement of profit or loss.
- An in the allowance for receivables is shown as an expense in the statement of profit or loss.
- According to IAS 37, a provision should be recognised when:
 - An entity has a p..... a.....
 - It is p..... that a transfer of economic benefits will be required to settle it
 - A r..... e..... can be made of its amount
- According to IAS 37, a c..... liability must not be recognised as a liability in the financial statements. Instead it should be d..... in the notes to the financial statements.

Do you know? – Recording transactions and events

Could you fill in the blanks? The answers are in bold. Use this page for revision purposes as you approach the exam.

- **Sales tax** is an indirect tax levied on the sale of goods and services.
- **Registered** businesses charge **output** sales tax on sales and suffer **input** sales tax on purchases.
- The **cost of goods sold** is calculated as: Opening inventory + purchases – closing inventory.
- Carriage **inwards** is included in the cost of purchases. Carriage **outwards** is a selling expense.
- The value of inventories is calculated at the **lower** of **cost** and **net realisable value**.
- The cost of inventories can be arrived at by using FIFO (first in-first out) or AVCO (weighted average costing, both periodic weighted average and continuous weighted average).
- **Asset** expenditure is expenditure which forms part of the cost of non-current assets on the statement of financial position. **Other** expenditure is expenditure incurred for the purpose of the trade or to maintain non-current assets, and this is shown on the statement of profit or loss.
- The **cost** of a non-current asset, less its estimated residual value, is allocated fairly between accounting periods by means of **depreciation**.
- **Development** costs must be capitalised as an **intangible** asset if the criteria in IAS 38 are satisfied.
- **Accruals** are expenses which relate to an accounting period but have not yet been paid for. They are shown in the statement of financial position as a **liability**.
- **Prepayments** are expenses which have already been paid but relate to a future accounting period. They are shown in the statement of financial position as an **asset**.
- **Irrecoverable** debts are specific debts owed to a business which it decides are never going to be paid. They are written off as an **expense** in the statement of profit or loss.
- An **increase** in the allowance for receivables is shown as an expense in the statement of profit or loss.
- According to IAS 37, a **provision** should be recognised when:
 - An entity has a **present obligation**
 - It is **probable** that a transfer of economic benefits will be required to settle it
 - A **reliable estimate** can be made of its amount
- According to IAS 37, a **contingent** liability must not be recognised as a liability in the financial statements. Instead it should be **disclosed** in the notes to the financial statements.

5 Sales tax

19 mins

- 5.1 W is registered for sales tax. The managing director has asked four staff in the accounts department why the output tax for the last quarter does not equal 20% of sales (20% is the rate of tax). Which one of the following four replies she received was **NOT** correct?

- ☐ The company had some exports that were not liable to sales tax.
- ☐ The company made some sales of zero-rated products.
- ☐ The company made some sales of exempt products.
- ☐ The company sold some products to businesses not registered for sales tax.

(2 marks)

- 5.2 The following information relates to Eva Co's sales tax for the month of March 20X3:

	\$
Sales (including sales tax)	109,250
Purchases (net of sales tax)	64,000

Sales tax is charged at a flat rate of 15%. Eva Co's sales tax account showed an opening credit balance of \$4,540 at the beginning of the month and a closing debit balance of \$2,720 at the end of the month.

What was the total sales tax paid to regulatory authorities during the month of March 20X3?

\$	
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(2 marks)

- 5.3 Alana is not registered for sales tax purposes. She has recently received an invoice for goods for resale which cost \$500 before sales tax, which is levied at 15%. The total value was therefore \$575.

What is the correct entry to be made in Alana's general ledger in respect of the invoice?

- ☐ DEBIT Purchases \$500, DEBIT Sales tax \$75, CREDIT Payables \$575
- ☐ DEBIT Purchases \$575, CREDIT Sales tax \$75, CREDIT Payables \$500
- ☐ DEBIT Purchases \$500, CREDIT Payables \$500
- ☐ DEBIT Purchases \$575, CREDIT Payables \$575

(2 marks)

- 5.4 Information relating to Lauren Co's transactions for the month of May 20X4 is shown below:

	\$
Sales (including sales tax)	140,000*
Purchases (net of sales tax)	65,000

Sales tax is charged at a flat rate of 20%. Lauren Co's sales tax account had a zero balance at the beginning of the month and at the end of the month.

* Lauren Co's sales for the month of \$140,000 included \$20,000 of sales exempt from sales tax.

What was the total sales tax paid to regulatory authorities at the end of May 20X4 (to the nearest \$)?

- ☐ \$7,000
- ☐ \$20,000
- ☐ \$23,333
- ☐ \$13,000

(2 marks)

- 5.5 A business commenced with capital in cash of \$1,000. Inventory costing \$800 plus sales tax is purchased on credit, and half is sold for \$1,000 plus sales tax, the customer paying in cash at once. The sales tax rate is 20%.

What would the accounting equation after these transactions show?

- ☐ Assets \$1,800 less Liabilities \$200 equals Capital \$1,600
- ☐ Assets \$2,200 less Liabilities \$1,000 equals Capital \$1,200
- ☐ Assets \$2,600 less Liabilities \$800 equals Capital \$1,800
- ☐ Assets \$2,600 less Liabilities \$1,000 equals Capital \$1,600

(2 marks)

- 5.6 Trade receivables and payables in the financial statements of a sales tax registered trader will appear as described by which of the following?

- ☐ Inclusive of sales tax in the statement of financial position
- ☐ Exclusive of sales tax in the statement of financial position
- ☐ The sales tax is deducted and added to the sales tax account in the statement of financial position
- ☐ Sales tax does not appear in the statement of financial position because the business simply acts as a collector on behalf of the tax authorities

(2 marks)

- 5.7 Which of the following correctly describe the entry in the sales account for a sale for a sales tax registered trader?

- ☐ Credited with the total of sales made, including sales tax
- ☐ Credited with the total of sales made, excluding sales tax
- ☐ Debited with the total of sales made, including sales tax
- ☐ Debited with the total of sales made, excluding sales tax

(2 marks)

- 5.8 Sales (including sales tax) amounted to \$27,612.50, and purchases (excluding sales tax) amounted to \$18,000. What is the balance on the sales tax account, assuming all items are subject to sales tax at 17.5%?

- ☐ \$962.50 DEBIT
- ☐ \$962.50 CREDIT
- ☐ \$1,682.10 CREDIT
- ☐ \$1,682.10 CREDIT

(2 marks)

(Total = 16 marks)

6 Inventory

46 mins

- 6.1 The inventory value for the financial statements of Global Co for the year ended 30 June 20X3 was based on a inventory count on 7 July 20X3, which gave a total inventory value of \$950,000.

Between 30 June and 7 July 20X3, the following transactions took place.

	\$
Purchase of goods	11,750
Sale of goods (mark up on cost at 15%)	14,950
Goods returned by Global Co to supplier	1,500

What figure should be included in the financial statements for inventories at 30 June 20X3?

\$	
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(2 marks)

- 6.2 Which of the following costs may be included when arriving at the cost of finished goods inventory for inclusion in the financial statements of a manufacturing company?

- 1 Carriage inwards
 - 2 Carriage outwards
 - 3 Depreciation of factory plant
 - 4 Finished goods storage costs
 - 5 Factory supervisors' wages
- ☐ 1 and 5 only
☐ 2, 4 and 5 only
☐ 1, 3 and 5 only
☐ 1, 2, 3 and 4 only

(2 marks)

- 6.3 The closing inventory at cost of Darcy Co at 31 January 20X3 amounted to \$284,700.

The following items were included at cost in the total:

- (a) 400 coats, which had cost \$80 each and normally sold for \$150 each. Owing to a defect in manufacture, they were all sold after the reporting date at 50% of their normal price. Selling expenses amounted to 5% of the proceeds.
- (b) 800 skirts, which had cost \$20 each. These too were found to be defective. Remedial work in February 20X3 cost \$5 per skirt, and selling expenses for the batch totalled \$800. They were sold for \$28 each.

What should the inventory value be according to IAS 2 *Inventories* after considering the above items?

- ☐ \$276,400
☐ \$281,200
☐ \$282,800
☐ \$329,200

(2 marks)

- 6.4 Jennings Co values its inventory using the first in, first out (FIFO) method. At 1 May 20X2 Jennings Co had 700 engines in inventory, valued at \$190 each.

During the year ended 30 April 20X3 the following transactions took place:

20X2

1 July Purchased 500 engines at \$220 each
1 November Sold 400 engines for \$160,000

20X3

1 February Purchased 300 engines at \$230 each
15 April Sold 250 engines for \$125,000

What is the value of Jennings Co's closing inventory of engines at 30 April 20X3?

- ☐ \$188,500
☐ \$195,500
☐ \$166,000
☐ None of these figures

(2 marks)

- 6.5 Identify, by indicating the relevant box in the table below, whether each of the following statements about the valuation of inventory are correct or incorrect, according to IAS 2 *Inventories*.

Inventory items are normally to be valued at the higher of cost and net realisable value.	Correct	Incorrect
The cost of goods manufactured by an entity will include materials and labour only. Overhead costs cannot be included.	Correct	Incorrect
LIFO (last in, first out) cannot be used to value inventory.	Correct	Incorrect
Selling price less estimated profit margin may be used to arrive at cost if this gives a reasonable approximation to actual cost.	Correct	Incorrect

(2 marks)

- 6.6 Wilson Co has an accounting date of 31 October and carried out a physical check of inventory on 4 November 20X3, leading to an inventory value at cost at this date of \$483,700.

Between 1 November 20X3 and 4 November 20X3 the following transactions took place:

- (a) Goods costing \$38,400 were received from suppliers.
- (b) Goods that had cost \$14,800 were sold for \$20,000.
- (c) A customer returned, in good condition, some goods which had been sold to him in October for \$600 and which had cost \$400.
- (d) The company returned goods that had cost \$1,800 in October to the supplier, and received a credit note for them.

What figure should appear in the company's financial statements at 31 October 20X3 for closing inventory, based on this information?

- ☐ \$458,700
- ☐ \$505,900
- ☐ \$508,700
- ☐ \$461,500

(2 marks)

- 6.7 In preparing its financial statements for the current year, Jackson Co's closing inventory was understated by \$300,000.

What will be the effect of this error if it remains uncorrected?

- ☐ The current year's profit will be overstated and next year's profit will be understated.
- ☐ The current year's profit will be understated but there will be no effect on next year's profit.
- ☐ The current year's profit will be understated and next year's profit will be overstated.
- ☐ The current year's profit will be overstated but there will be no effect on next year's profit.

(2 marks)

- 6.8 The financial year of Mitex Co ended on 31 December 20X1. An inventory count on 4 January 20X2 gave a total inventory value of \$527,300.

The following transactions occurred between January 1 and January 4.

	\$
Purchases of goods	7,900
Sales of goods (gross profit margin 40% on sales)	15,000
Goods returned to a supplier	800

What inventory value should be included in Mitex Co's financial statements at 31 December 20X1?

- ☐ \$525,400
- ☐ \$527,600
- ☐ \$529,200
- ☐ \$535,200

(2 marks)

6.9 Which of the following statements about IAS 2 *Inventories* is correct?

- ☐ Production overheads should be included in cost on the basis of a company's normal level of activity in the period.
- ☐ In determining the cost of inventories, trade discounts received must be deducted and selling costs must be added.
- ☐ In arriving at the cost of inventories, FIFO, LIFO and weighted average cost formulas are acceptable.
- ☐ It is permitted to value finished goods inventories at materials plus labour cost only, without adding production overheads.

(2 marks)

6.10 You are preparing the financial statements for a business. The cost of the items in closing inventory is \$41,875. This includes some items which cost \$1,960 and which were damaged in transit. You have estimated that it will cost \$360 to rep

(2 marks)

(2 marks)

6.12 An inventory record card shows the following details.

February	1	50 units in stock at a cost of \$40 per unit
	7	100 units purchased at a cost of \$45 per unit
	14	80 units sold
	21	50 units purchased at a cost of \$50 per unit
	28	60 units sold

What is the value of inventory at 28 February using the FIFO method?

- ☐ \$2,450
- ☐ \$2,700
- ☐ \$2,950
- ☐ \$3,000

(2 marks)

6.13 IAS 2 *Inventories* defines the items that may be included in computing the cost of an inventory of finished goods manufactured by a business.

Which one of the following lists consists only of items which may be included in the cost of inventories, according to IAS 2?

- ☐ Supervisor's wages, carriage inwards, carriage outwards, raw materials
- ☐ Raw materials, carriage inwards, costs of storage of finished goods, plant depreciation
- ☐ Plant depreciation, carriage inwards

(2 marks)

excluding

(2 marks)

- 6.15 The inventory value for the financial statements of Q for the year ended 31 December 20X4 was based on an inventory count on 4 January 20X5, which gave a total inventory value of \$836,200.

Between 31 December and 4 January 20X5, the following transactions took place:

	\$
Purchases of goods	8,600
Sales of goods (profit margin 30% on sales)	14,000
Goods returned by Q to supplier	700

What adjusted figure should be included in the financial statements for inventories at 31 December 20X4?

- ☐ \$838,100
- ☐ \$853,900
- ☐ \$818,500
- ☐ \$834,300

(2 marks)

- 6.16 Changer Co has decided to switch from using the FIFO method of inventory valuation to using the average cost method (AVCO).

In the first accounting period where the change is made, opening inventory valued by the FIFO method was \$53,200. Closing inventory valued by the AVCO method was \$59,800.

Total purchases and during the period were \$136,500. Using the continuous AVCO method, opening inventory would have been valued at \$56,200.

What is the cost of materials that should be included in the statement of profit or loss for the period?

- ☐ \$129,900
- ☐ \$132,900
- ☐ \$135,900
- ☐ \$140,100

(2 marks)

- 6.17 Which one of the following statements about the use of a continuous inventory system is **INCORRECT**?

- ☐ In a retail organisation, a continuous inventory system can be used to keep track of the quantity of each stock item available in its distribution centres.
- ☐ Under continuous inventory, the cost of each receipt of inventory and the cost of each issue from inventory is recorded individually.
- ☐ A continuous inventory system removes the need for periodic physical inventory counts.
- ☐ Both the FIFO and average cost (AVCO) methods of pricing inventory may be used within a continuous inventory system.

(2 marks)

6.18 The information below relates to inventory item Z.

March	1	50 units held in opening inventory at a cost of \$40 per unit
	17	50 units purchased at a cost of \$50 per unit
	31	60 units sold at a selling price of \$100 per unit

Under AVCO, what is the value of inventory held for item Z at the end of March 31?

- ☐ \$4,000
☐ \$1,800
☐ \$2,000
☐ \$2,500

(2 marks)

6.19 A firm has the following transactions with its product R.

1 January 20X1	Opening inventory: nil
1 February 20X1	Buys 10 units at \$300 per unit
11 February 20X1	Buys 12 units at \$250 per unit
1 April 20X1	Sells 8 units at \$400 per unit
1 August 20X1	Buys 6 units at \$200 per unit
1 December 20X1	Sells 12 units at \$400 per unit

The firm uses continuous weighted average cost (AVCO) to value its inventory.

What is the inventory value at the end of the year? (Give your answer to 2 decimal places)

\$	
----	--

(2 marks)

6.20 A firm has the following transactions with its product Q.

1 December 20X1	Opening inventory: Nil
2 December 20X1	Buys 10 units at \$300 per unit
9 December 20X1	Buys 12 units at \$250 per unit
10 December 20X1	Sells 8 units at \$400 per unit
11 December 20X1	Buys 6 units at \$200 per unit
21 December 20X1	Sells 12 units at \$400 per unit

The firm uses periodic weighted average cost (AVCO) to value its inventory.

What is the inventory value at the end of the year? (Give your answer to 2 decimal places)

\$	
----	--

(2 marks)

(Total = 40 marks)

7 Tangible non-current assets I

46 mins

7.1 What is the purpose of charging depreciation in financial statements?

- ☐ To allocate the cost of a non-current asset over the accounting periods expected to benefit from its use
- ☐ To ensure that funds are available for the eventual replacement of the asset
- ☐ To reduce the cost of the asset in the statement of financial position to its estimated market value
- ☐ To account for the 'wearing-out' of the asset over its life

(2 marks)

7.2 Which of the statements below correctly states the purpose of the asset register?

- ☐ An internal control to ensure details of all assets are readily available in the event of loss or theft
- ☐ To ensure the organisation is aware of the age of plant and machinery
- ☐ An internal control to ensure information relating to non-current assets in the nominal ledger and the financial statements is correct
- ☐ To enable the organisation to comply with IAS 16 *Property, Plant and Equipment*

(2 marks)

7.3 An asset register showed a carrying amount of \$67,460. A non-current asset costing \$15,000 had been sold for \$4,000, making a loss on disposal of \$1,250. No entries had been made in the asset register for this disposal.

What is the correct balance on the asset register, once the disposal has been accounted for?

\$	
----	--

(2 marks)

7.4 An organisation's asset register shows a carrying amount of \$145,600. The non-current asset account in the nominal ledger shows a carrying amount of \$135,600. The difference could be due to a disposed asset not having been deducted from the asset register.

Which one of the following could represent that asset?

- ☐ Asset with disposal proceeds of \$15,000 and a profit on disposal of \$5,000
- ☐ Asset with disposal proceeds of \$15,000 and a carrying amount of \$5,000
- ☐ Asset with disposal proceeds of \$15,000 and a loss on disposal of \$5,000
- ☐ Asset with disposal proceeds of \$5,000 and a carrying amount of \$5,000

(2 marks)

7.5 Which one of the following would occur if the purchase of computer stationery was debited to the computer equipment at cost account?

- ☐ An overstatement of profit and an overstatement of non-current assets
- ☐ An understatement of profit and an overstatement of non-current assets
- ☐ An overstatement of profit and an understatement of non-current assets
- ☐ An understatement of profit and an understatement of non-current assets

(2 marks)

- 7.6 Which one of the following statements correctly describes non-current assets?
- ☐ Assets that form part of the working capital of the business
 - ☐ Assets which are intended to be used by the business on a continuing basis, including both tangible and intangible assets that do not meet the IAS 1 definition of a current asset
 - ☐ Non-monetary assets without physical substance that are controlled by the entity and from which future benefits are expected to flow
 - ☐ Assets in the form of materials or supplies to be consumed in the production process
- (2 marks)

- 7.7 Happy Co bought a property four years ago on 1 January for \$ 170,000. Since then property prices have risen substantially and the property has been revalued at \$210,000. The property was estimated as having a useful life of 20 years when it was purchased. What is the balance on the revaluation surplus reported in the statement of financial position?
- ☐ \$210,000
 - ☐ \$136,000
 - ☐ \$74,000
 - ☐ \$34,000
- (2 marks)

- 7.8 A business purchased a motor car on 1 July 20X3 for \$20,000. It is to be depreciated at 20% per year on the straight line basis, assuming a residual value at the end of five years of \$4,000, with a proportionate depreciation charge in the years of purchase and disposal. The \$20,000 cost was correctly entered in the cash book but posted to the debit of the motor vehicles repairs account. How will the business profit for the year ended 31 December 20X3 be affected by the error?
- ☐ Understated by \$18,400
 - ☐ Understated by \$16,800
 - ☐ Overstated by \$18,400
 - ☐ Overstated by \$16,800
- (2 marks)

- 7.9 Right Co's policy is to charge depreciation on plant and machinery at 20% per year on cost, with proportional depreciation for items purchased or sold during a year. Right Co's plant and machinery at cost account for the year ended 30 September 20X3 is shown below.

PLANT AND MACHINERY – COST

	\$		\$
20X2		20X3	
1 Oct Balance	200,000	30 Jun Transfer disposal account	40,000
		30 Sep Balance	210,000
20X3			
1 Apr Cash-purchase of plant	50,000		
	<u>250,000</u>		<u>250,000</u>

What should be the depreciation charge for plant and machinery (excluding any profit or loss on the disposal) for the year ended 30 September 20X3?

- ☐ \$43,000
☐ \$51,000
☐ \$42,000
☐ \$45,000

(2 marks)

- 7.10 The plant and machinery at cost account of Tolly Co for the year ended 30 June 20X4 was as follows:

PLANT AND MACHINERY – COST

	\$		\$
20X3		20X3	
1 Jul Balance	240,000	30 Sep Transfer disposal account	60,000
20X4		20X4	
1 Jan Cash – purchase of plant	160,000	30 Jun Balance	340,000
	<u>400,000</u>		<u>400,000</u>

Tolly Co's policy is to charge depreciation at 20% per year on the straight line basis, with proportionate depreciation in the years of purchase and disposal.

What should be the depreciation charge for the year ended 30 June 20X4?

- ☐ \$68,000
☐ \$64,000
☐ \$61,000
☐ \$55,000

(2 marks)

- 7.11 A manufacturing company receives an invoice on 29 February 20X2 for work done on one of its machines. \$25,500 of the cost is actually for a machine upgrade, which will improve efficiency. The accounts department do not notice and charge the whole amount to maintenance costs. Machinery is depreciated at 25% per year on a straight line basis, with a proportional charge in the years of acquisition and disposal.

By what amount will the profit for the year to 30 June 20X2 be understated?

- ☐ \$19,125
☐ \$25,500
☐ \$23,375
☐ \$21,250

(2 marks)

- 7.12 W bought a new printing machine. The machine was purchased for \$80,000. The installation costs were \$5,000 and the employees received training on how to use the machine, at a cost of \$2,000. Before using the machine to print customers' orders, a test was undertaken and the paper and ink cost \$1,000.

What should be the cost of the machine in the company's statement of financial position?

\$

(2 marks)

- 7.13 What are the correct ledger entries to record an acquisition of a non-current asset on credit?

DEBIT	CREDIT	
<input type="radio"/> Non-current assets – cost	Receivables	
<input type="radio"/> Payables	Non-current assets – cost	
<input type="radio"/> Non-current assets – cost	Payables	
<input type="radio"/> Non-current assets – cost	Revaluation surplus	(2 marks)

- 7.14 Alpha sells machine B for \$50,000 cash on 30 April 20X4. Machine B cost \$100,000 when it was purchased and has a carrying amount of \$65,000 at the date of disposal. What are the journal entries to record the disposal of machine B?

<input type="radio"/>	DEBIT Accumulated depreciation	\$35,000	
	DEBIT Loss on disposal (SPL)	\$15,000	
	DEBIT Cash	\$50,000	
	CREDIT Non-current assets – cost		\$100,000
<input type="radio"/>	DEBIT Accumulated depreciation	\$65,000	
	DEBIT Loss on disposal (SPL)	\$35,000	
	CREDIT Non-current assets – cost		\$100,000
<input type="radio"/>	DEBIT Accumulated depreciation	\$35,000	
	DEBIT Cash	\$50,000	
	CREDIT Non-current assets	\$65,000	
	CREDIT Profit on disposal (SPL)		\$20,000
<input type="radio"/>	DEBIT Non-current assets	\$65,000	
	DEBIT Accumulated depreciation	\$35,000	
	CREDIT Cash	\$50,000	
	CREDIT Profit on disposal (SPL)		\$50,000

(2 marks)

- 7.15 Identify, by indicating the relevant box in the table below, whether each of the following statements is true or false.

IAS 16 <i>Property, Plant and Equipment</i> requires entities to disclose the purchase date of each asset.	True	False
The carrying amount of a non-current asset is the cost or valuation of that asset less accumulated depreciation.	True	False
IAS 16 <i>Property, Plant and Equipment</i> permits entities to make a transfer from the revaluation surplus to retained earnings for excess depreciation on revalued assets.	True	True
Once decided, the useful life of a non-current asset should not be changed.	True	False

(2 marks)

The following information is relevant for Questions 7.16 and 7.17.

Gusna Co purchased a building on 31 December 20X1 for \$750,000. At the date of acquisition, the useful life of the building was estimated to be 25 years and depreciation is calculated using the straight line method. At 31 December 20X6, an independent valuer valued the building at \$1,000,000 and the revaluation was recognised in the financial statements. Gusna's accounting policies state that excess depreciation arising on revaluation of non-current assets can be transferred from the revaluation surplus to retained earnings.

7.16 What is the depreciation charge on the building for the year ended 31 December 20X7?

- ☐ \$40,000
- ☐ \$50,000
- ☐ \$30,000
- ☐ \$42,500

(2 marks)

7.17 From the list of tokens below, identify the correct debit/credit entries to record the transfer of excess depreciation.

TOKEN		DEBIT ENTRY	CREDIT ENTRY
Retained earnings \$20,000		Debit entry	
Revaluation surplus \$20,000			Credit entry
Revaluation surplus \$12,500			
Retained earnings \$12,500			

(2 marks)

7.18 Which of the following should be disclosed for tangible non-current assets according to IAS 16 *Property, Plant and Equipment*?

- 1 Depreciation methods used and the total depreciation allocated for the period
 - 2 A reconciliation of the carrying amount of non-current assets at the beginning and end of the period
 - 3 For revalued assets, whether an independent valuer was involved in the valuation
 - 4 For revalued assets, the effective date of the revaluation
- ☐ 2 and 4 only
- ☐ 1 and 2 only
- ☐ 1, 2, 3 and 4
- ☐ 3 and 4 only

(2 marks)

- 7.19 On 1 October 20X1, X Co purchased a property for \$400,000. The property had a useful life of 40 years and was depreciated on a straight line basis. On 1 October 20X5, the property was revalued to \$432,000. The remaining useful life at that date was 36 years. The company wishes to make the allowed transfer of excess depreciation between the revaluation surplus and retained earnings.

Which of the following correctly records the transfer at 30 September 20X6?

DEBIT	CREDIT
<input type="radio"/> Retained earnings \$2,000	<input type="radio"/> Revaluation surplus \$2,000
<input type="radio"/> Revaluation surplus \$2,000	<input type="radio"/> Retained earnings \$2,000
<input type="radio"/> Retained earnings \$12,000	<input type="radio"/> Revaluation surplus \$12,000
<input type="radio"/> Revaluation surplus \$12,000	<input type="radio"/> Retained earnings \$12,000

(2 marks)

(Total = 38 marks)

8 Tangible non-current assets II

53 mins

- 8.1 A car was purchased by a newsagent business in May 20X0 for:

	\$
Cost	10,000
Road tax	150
Total	<u>10,150</u>

The business adopts a date of 31 December as its year end.

The car was traded in for a replacement vehicle in August 20X3 at an agreed value of \$5,000.

It has been depreciated at 25% per year on the reducing balance method, charging a full year's depreciation in the year of purchase and none in the year of sale.

What was the profit or loss on disposal of the vehicle during the year ended December 20X3?

\$ profit.

(2 marks)

- 8.2 The carrying amount of a Billing's non-current assets was \$200,000 at 1 August 20X0. During the year ended 31 July 20X1, the company sold non-current assets for \$25,000 on which it made a loss of \$5,000. The depreciation charge for the year was \$20,000. What was the carrying amount of non-current assets at 31 July 20X1?

- ☐ \$150,000
☐ \$155,000
☐ \$160,000
☐ \$180,000

(2 marks)

- 8.3 Y purchased some plant on 1 January 20X0 for \$38,000. The payment for the plant was correctly entered in the cash book but was entered on the debit side of the plant repairs account.

Y charges depreciation on the straight line basis at 20% per year, with a proportionate charge in the years of acquisition and disposal, and assuming no scrap value at the end of the life of the asset.

How will Y's profit for the year ended 31 March 20X0 be affected by the error?

- ☐ Understated by \$30,400
- ☐ Understated by \$36,100
- ☐ Understated by \$38,000
- ☐ Overstated by \$1,900

(2 marks)

- 8.4 B acquired a lorry on 1 May 20X0 at a cost of \$30,000. The lorry has an estimated useful life of four years, and an estimated resale value at the end of that time of \$6,000. B charges depreciation on the straight line basis, with a proportionate charge in the period of acquisition.

What will the depreciation charge for the lorry be in B's accounting period to 30 September 20X0?

- ☐ \$3,000
- ☐ \$2,500
- ☐ \$2,000
- ☐ \$5,000

(2 marks)

- 8.5 At 31 December 20X3 Q, a limited liability company, owned a building that had cost \$800,000 on 1 January 20W4.

It was being depreciated at 2% per year.

On 31 December 20X3 a revaluation to \$1,000,000 was recognised. At this date the building had a remaining useful life of 40 years.

What is the balance on the revaluation surplus at 31 December 20X3 and the depreciation charge in the statement of profit or loss for the year ended 31 December 20X4?

	<i>Depreciation charge for year ended 31 December 20X4 (statement of profit or loss)</i>	<i>Revaluation surplus as at 31 December 20X3 (statement of financial position)</i>
	\$	\$
<input type="radio"/>	25,000	200,000
<input type="radio"/>	25,000	360,000
<input type="radio"/>	20,000	200,000
<input type="radio"/>	20,000	360,000

(2 marks)

8.6 Which of the following best explains what is meant by 'asset expenditure'?

- ☐ Expenditure on non-current assets, including repairs and maintenance
- ☐ Expenditure on expensive assets
- ☐ Expenditure relating to the issue of share capital
- ☐ Expenditure relating to the acquisition or improvement of non-current assets

(2 marks)

8.7 Which of the following costs would be classified as asset expenditure for a restaurant business?

- ☐ A replacement for a broken window
- ☐ Repainting the restaurant
- ☐ An illuminated sign advertising the business name
- ☐ Cleaning of the kitchen floors

(2 marks)

8.8 Which one of the following costs on the invoice for a new company car would be shown as an expense in the statement of profit or loss?

- ☐ Road tax
- ☐ Number plates
- ☐ Fitted stereo
- ☐ Delivery costs

(2 marks)

8.9 Lance is entering an invoice for a new item of equipment in the accounts. The invoice shows the following costs:

Water treatment equipment	\$39,800
Delivery	\$1,100
Maintenance charge	\$3,980
Sales tax	\$7,854
Invoice total	\$52,734

Lance is registered for sales tax. What is the total value of asset expenditure on the invoice?

- ☐ \$39,800
- ☐ \$40,900
- ☐ \$44,880
- ☐ \$52,734

(2 marks)

8.10 Which one of the following assets may be classified as a non-current asset in the financial statements of a business?

- ☐ A tax refund due next year
- ☐ A motor vehicle held for resale
- ☐ A computer used in the office
- ☐ Cleaning products used to clean the office floors

(2 marks)

8.11 Which of the following items should be included in current assets?

- 1 Assets which are not intended to be converted into cash
 - 2 Assets which will be converted into cash in the long term
 - 3 Assets which will be converted into cash in the near future
- ☐ 1 only
☐ 2 only
☐ 3 only
☐ 2 and 3

(2 marks)

8.12 Which of the following statements describes current assets?

- ☐ Assets which are currently located on the business premises
☐ Assets which are used to conduct the organisation's current business
☐ Assets which are expected to be converted into cash in the short-term
☐ Assets which are not expected to be converted into cash in the short-term

(2 marks)

8.13 Gamma purchases a motor vehicle on 30 September 20X1 for \$15,000 on credit. Gamma has a policy of depreciating motor vehicles using the reducing balance method at 15% per year, pro rata in the years of purchase and sale.

What are the correct ledger entries to record the purchase of the vehicle at 30 September 20X1 and what is the depreciation charge for the year ended 30 November 20X1?

<i>Purchase of motor vehicle on 30.9.X1</i>		<i>Depreciation charge for year ended 30.11.X1</i>	
<input type="radio"/>	DEBIT Non-current assets – cost \$15,000 CREDIT Payables \$15,000		\$2,250
<input type="radio"/>	DEBIT Payables \$15,000 CREDIT Non-current assets – cost \$15,000		\$2,250
<input type="radio"/>	DEBIT Non-current assets – cost \$15,000 CREDIT Payables \$15,000		\$375
<input type="radio"/>	DEBIT Payables \$15,000 CREDIT Non-current assets – cost \$15,000		\$375

(2 marks)

8.14 Banjo Co purchased a building on 30 June 20X8 for \$1,250,000. At acquisition, the useful life of the building was 50 years. Depreciation is calculated on the straight line basis. Ten years later, on 30 June 20Y8 when the carrying amount of the building was \$1,000,000, the building was revalued to \$1,600,000. Banjo Co has a policy of transferring the excess depreciation on revaluation from the revaluation surplus to retained earnings.

Assuming no further revaluations take place, what is the balance on the revaluation surplus at 30 June 20Y9?

- ☐ \$335,000
☐ \$310,000
☐ \$560,000
☐ \$585,000

(2 marks)

- 8.15 A non-current asset (cost \$15,000, depreciation \$10,000) is given in part exchange for a new asset costing \$20,500. The agreed trade-in value was \$5,500. Which of the following will be included in the statement of profit or loss?
- ☐ A profit on disposal \$5,500
 - ☐ A loss on disposal \$4,500
 - ☐ A loss on purchase of a new asset \$5,500
 - ☐ A profit on disposal \$500
- (2 marks)
-
- 8.16 Baxter Co purchased an asset for \$100,000 on 1.1.X1. It had an estimated useful life of five years and it was depreciated using the straight line method. On 1.1.X3 Baxter Co revised the remaining estimated useful life to eight years.
- What is the carrying amount of the asset at 31.12.X3?
- ☐ \$40,000
 - ☐ \$52,500
 - ☐ \$40,000
 - ☐ \$62,500
- (2 marks)
-
- 8.17 Senakuta Co purchased a machine with an estimated useful life of five years for \$34,000 on 30 September 20X5. Senakuta Co planned to scrap the machine at the end of its useful life and estimated that the scrap value at the purchase date was \$4,000. On 1 October 20X8, Senakuta revised the scrap value to \$2,000 due to the decreased value of scrap metal.
- What is the depreciation charge for the year ended 30 September 20X9?
- ☐ \$7,000
 - ☐ \$6,800
 - ☐ \$2,800
 - ☐ \$6,400
- (2 marks)
-
- 8.18 Evans Co purchased a machine with an estimated useful life of ten years for \$76,000 on 30 September 20X5. The machine had a residual value of \$16,000.
- What are the ledger entries to record the depreciation charge for the machine in the year ended 30 September 20X8?
- ☐ DEBIT Depreciation charge \$6,000
CREDIT Accumulated depreciation \$6,000
 - ☐ DEBIT Depreciation charge \$6,000
DEBIT Non-current assets \$12,000
CREDIT Accumulated depreciation \$18,000
 - ☐ DEBIT Accumulated depreciation \$6,000
CREDIT Depreciation charge \$6,000
 - ☐ DEBIT Accumulated depreciation \$18,000
CREDIT Non-current assets \$18,000
- (2 marks)
-

- 8.19 Banter Co purchased an office building on 1 January 20X1. The building cost was \$1,600,000 and this was depreciated by the straight line method at 2% per year, assuming a 50-year life and nil residual value. The building was revalued to \$2,250,000 on 1 January 20X6. The useful life was not revised. The excess depreciation charge will be transferred from the revaluation surplus to retained earnings each year. The company's financial year ends on 31 December.

What is the balance on the revaluation surplus at 31 December 20X6?

\$	
----	--

(2 marks)

- 8.20 Digger Co purchased an asset on 1 January 20X3 at a cost of \$1,000,000. It is depreciated over 50 years by the straight line method (nil residual value), with a proportionate charge for depreciation in the year of acquisition and the year of disposal. At 31 December 20X4 the asset was re-valued to \$1,200,000. There was no change in the expected useful life of the asset.

The asset was sold on 30 June 20X5 for \$1,195,000.

What profit or loss on disposal of the asset will be reported in the statement of profit or loss of Digger Co for the year ended 31 December 20X5?

- ☐ Profit of \$7,500
☐ Profit of \$235,000
☐ Profit of \$247,500
☐ Loss of \$5,000

(2 marks)

- 8.21 On 1 January 20X7 a building with a carrying amount of \$700,000 was revalued to \$750,000. The remaining useful life at that date was 25 years.

On 1 January 20X9 the building was sold for \$800,000.

What profit on disposal of the building will be reported in the statement of profit or loss for the year ended 31 December 20X7?

- ☐ \$110,000
☐ \$50,000
☐ \$160,000
☐ \$156,000

(2 marks)

- 8.22 Company J's head office building had a carrying amount of \$400,000 at 1 January 20X4 and 30 years useful life remaining. It was revalued on that date to \$600,000 with no change to the useful life.

On 1 January 20X6, following a property slump, it was sold for \$450,000.

What amount (if any) should be charged against profit or loss as loss on disposal?

- ☐ \$150,000
☐ \$110,000
☐ \$50,000
☐ \$Nil

(2 marks)

(Total = 44 marks)

9 Intangible non-current assets

29 mins

- 9.1 Identify, by clicking on the relevant box in the table below, whether each of the following statements about research and development expenditure are true or false, according to IAS 38 *Intangible Assets*.

Research expenditure, other than asset expenditure on research facilities, should be recognised as an expense as incurred.	True	False
In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.	True	False
Development expenditure recognised as an asset must be amortised over a period not exceeding five years.	True	False

(2 marks)

- 9.2 According to IAS 38 *Intangible Assets*, which of the following statements about research and development expenditure are correct?

- 1 If certain conditions are met, an entity may decide to capitalise development expenditure.
 - 2 Research expenditure, other than asset expenditure on research facilities, must be written off as incurred.
 - 3 Capitalised development expenditure must be amortised over a period not exceeding five years.
 - 4 Capitalised development expenditure must be disclosed in the statement of financial position under intangible non-current assets.
- ☐ 1, 2 and 4 only
☐ 1 and 3 only
☐ 2 and 4 only
☐ 3 and 4 only

(2 marks)

9.3 According to IAS 38 *Intangible Assets*, which of the following statements concerning the accounting treatment of research and development expenditure are true?

- 1 Development costs recognised as an asset must be amortised over a period not exceeding five years.
- 2 Research expenditure, other than asset expenditure on research facilities, should be recognised as an expense as incurred.
- 3 In deciding whether development expenditure qualifies to be recognised as an asset, it is necessary to consider whether there will be adequate finance available to complete the project.
- 4 Development projects must be reviewed at each reporting date, and expenditure on any project no longer qualifying for capitalisation must be amortised through the statement of profit or loss and other comprehensive income over a period not exceeding five years.

- ☐ 1 and 4
☐ 2 and 4
☐ 2 and 3
☐ 1 and 3

(2 marks)

9.4 Which of the following **CANNOT** be recognised as an intangible non-current asset in GHK's statement of financial position at 30 September 20X1?

- ☐ GHK spent \$12,000 researching a new type of product. The research is expected to lead to a new product line in three years' time.
☐ GHK purchased another entity, BN on 1 October 20X0. Goodwill arising on the acquisition was \$15,000.
☐ GHK purchased a brand name from a competitor on 1 November 20X0, for \$65,000.
☐ GHK spent \$21,000 during the year on the development of a new product. The product is being launched on the market on 1 December 20X1 and is expected to be profitable.

(2 marks)

9.5 According to IAS 38 *Intangible Assets*, which of the following are intangible non-current assets in the financial statements of Iota Co?

- 1 A patent for a new glue purchased for \$20,000 by Iota Co
- 2 Development costs capitalised in accordance with IAS 38
- 3 A licence to broadcast a television series, purchased by Iota Co for \$150,000
- 4 A state of the art factory purchased by Iota Co for \$1.5 million

- ☐ 1 and 3 only
☐ 1, 2 and 3 only
☐ 2 and 4 only
☐ 2, 3 and 4 only

(2 marks)

- 9.6 In its first year of trading to 31 July 20X6, Camp Co incurred the following expenditure on research and development, none of which related to the cost of non-current assets: \$12,000 on successfully devising processes for converting seaweed into chemicals X, Y and Z and \$60,000 on developing a headache pill based on chemical Z. No commercial uses have yet been discovered for chemicals X and Y. Commercial production and sales of the headache pill commenced on 1 April 20X6 and are expected to produce steady profitable income during a five-year period before being replaced. Adequate resources exist to achieve this.

What is the maximum amount of development costs that must be carried forward at 31 July 20X6 under IAS 38 *Intangible Assets*?

- ☐ \$48,000
☐ \$56,000
☐ \$60,000
☐ \$72,000

(2 marks)

- 9.7 A manufacturer incurs the following costs: \$38,000 developing new techniques that will be put in place shortly to cut production costs; \$27,000 researching a new process to improve the quality of the standard product and \$8,000 on market research into the commercial viability of a new type of product. It is company policy to capitalise costs whenever permitted by IAS 38 *Intangible Assets*.

How much should be charged as research and development expenditure in profit or loss? (ignore amortisation)

- ☐ \$73,000
☐ \$35,000
☐ \$27,000
☐ \$38,000

(2 marks)

- 9.8 Which **TWO** of the following conditions would preclude any part of the development expenditure to which it relates from being capitalised?

- 1 The development is incomplete.
- 2 The benefits flowing from the completed development are expected to be less than its cost.
- 3 Funds are unlikely to be available to complete the development.
- 4 The development is expected to give rise to more than one product.

- ☐ 1 and 2
☐ 2 and 3
☐ 3 and 4
☐ 1 and 4

(2 marks)

- 9.9 Theta Co purchased a patent on 31 December 20X3 for \$250,000. Theta Co expects to use the patent for ten years, after which it will be valueless.

According to IAS 38 *Intangible Assets*, what amount will be amortised in Theta Co's statement of profit or loss and other comprehensive income for the year ended 31 December 20X4?

\$

(2 marks)

9.10 PF purchased a quota for carbon dioxide emissions for \$15,000 on 30 April 20X6 and capitalised it as an intangible asset in its statement of financial position. PF estimates that the quota will have a useful life of three years. What is the journal entry required to record the amortisation of the quota in the accounts for the year ended 30 April 20X9?

- | | | | | |
|-----------------------|---------------------------------|----------|----------|------------------|
| <input type="radio"/> | DEBIT Expenses | \$15,000 | | |
| | CREDIT Accumulated amortisation | | \$15,000 | |
| <input type="radio"/> | DEBIT Expenses | \$5,000 | | |
| | CREDIT Accumulated amortisation | | \$5,000 | |
| <input type="radio"/> | DEBIT Intangible assets | \$5,000 | | |
| | CREDIT Accumulated amortisation | | \$5,000 | |
| <input type="radio"/> | DEBIT Accumulated amortisation | \$15,000 | | |
| | CREDIT Intangible assets | | \$15,000 | (2 marks) |

9.11 What is the purpose of amortisation?

- ☐ To allocate the cost of an intangible non-current asset over its useful life.
- ☐ To ensure that funds are available for the eventual purchase of a replacement non-current asset.
- ☐ To reduce the cost of an intangible non-current asset in the statement of financial position to its estimated market value.
- ☐ To account for the risk associated with intangible assets. **(2 marks)**

9.12 Which of the following items (that all generate future economic benefits, and whose costs can be measured reliably), is an intangible non-current asset?

- 1 Computer hardware owned by a business
- 2 Operating software that operates the computer hardware in (1)
- 3 A patent bought by a business
- 4 An extension to an office building owned by a business
- ☐ All four items
- ☐ 1, 2 and 4 only
- ☐ 1 and 2 only
- ☐ 3 only **(2 marks)**

(Total = 24 marks)

10 Accruals and prepayments

36 mins

- 10.1 Mega Co receives rent for subletting part of its office block.

Rent, receivable quarterly in advance, is received as follows:

Date of receipt	Period covered	\$
1 October 20X1	3 months to 31 December 20X1	7,500
30 December 20X1	3 months to 31 March 20X2	7,500
4 April 20X2	3 months to 30 June 20X2	9,000
1 July 20X2	3 months to 30 September 20X2	9,000
1 October 20X2	3 months to 31 December 20X2	9,000

What figures, based on these receipts, should appear in Mega Co's financial statements for the year ended 30 November 20X2?

Statement of profit or loss	Statement of financial position
<input type="radio"/> \$34,000 DEBIT	Rent in arrears (DEBIT) \$3,000
<input type="radio"/> \$34,500 CREDIT	Rent received in advance (CREDIT) \$6,000
<input type="radio"/> \$34,000 CREDIT	Rent received in advance (CREDIT) \$3,000
<input type="radio"/> \$34,000 CREDIT	Rent in arrears (DEBIT) \$3,000

(2 marks)

- 10.2 Active Co pays rent quarterly in arrears on 1 January, 1 April, 1 July and 1 October each year. The rent was increased from \$90,000 per year to \$120,000 per year as from 1 October 20X2.

What rent expense and accrual should be included in Active Co's financial statements for the year ended 31 January 20X3?

Rent expense \$	Accrual \$
<input type="radio"/> 100,000	20,000
<input type="radio"/> 100,000	10,000
<input type="radio"/> 97,500	10,000
<input type="radio"/> 97,500	20,000

(2 marks)

- 10.3 At 31 March 20X2 Fire Co had oil in hand to be used for heating costing \$8,200 and an unpaid heating oil bill for \$3,600.

At 31 March 20X3 the heating oil in hand was \$9,300 and there was an outstanding heating oil bill of \$3,200.

Payments made for heating oil during the year ended 31 March 20X3 totalled \$34,600.

Based on these figures, what expense should appear in Fire Co's statement of profit or loss and other comprehensive income for heating oil for the year?

\$	<input type="text"/>
----	----------------------

(2 marks)

- 10.4 Jelly Co has sublet part of its offices and in the year ended 30 November 20X3 the rent receivable was:

Until 30 June 20X3	\$8,400 per year
From 1 July 20X3	\$12,000 per year

Rent was paid quarterly in advance on 1 January, April, July, and October each year.

What amounts should appear in Jelly Co's financial statements for the year ended 30 November 20X3?

	<i>Rent receivable</i>	<i>Statement of financial position</i>	
<input type="radio"/>	\$9,900	\$2,000 in sundry payables	
<input type="radio"/>	\$9,900	\$1,000 in sundry payables	
<input type="radio"/>	\$10,200	\$1,000 in sundry payables	
<input type="radio"/>	\$9,900	\$2,000 in sundry receivables	(2 marks)

- 10.5 A business compiling its financial statements for the year to 31 July each year pays rent quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. The annual rent was increased from \$60,000 per year to \$72,000 per year as from 1 October 20X3.

What figure should appear for rent expense in the business's statement of profit or loss and other comprehensive income for the year ended 31 July 20X4?

- ☐ \$69,000
☐ \$62,000
☐ \$70,000
☐ \$63,000
- (2 marks)

- 10.6 One of the products a garage sells to motorists is diesel fuel. Diesel fuel in inventory at 1 November 20X7 was \$12,500, and there were invoices awaited for \$1,700. During the year to 31 October 20X8, diesel fuel invoices of \$85,400 were paid, and a delivery worth \$1,300 had yet to be invoiced. (This was the only outstanding balance on the diesel fuel payable account at the year end.) At 31 October 20X8, the inventory of diesel fuel was valued at \$9,800. What is the value of diesel fuel to be charged to the garage's statement of profit or loss and other comprehensive income for the year to 31 October 20X8?

- ☐ \$87,700
☐ \$89,400
☐ \$88,500
☐ \$91,100
- (2 marks)

- 10.7 The electricity account for the year ended 30 June 20X1 was as follows.

	\$
Opening balance for electricity accrued at 1 July 20X0	300
<i>Payments made during the year</i>	
1 August 20X0 for three months to 31 July 20X0	600
1 November 20X0 for three months to 31 October 20X0	720
1 February 20X1 for three months to 31 January 20X1	900
30 June 20X1 for three months to 30 April 20X1	840
1 August 20X1 for three months to 31 July 20X1	840

Which of the following is the appropriate entry for electricity?

	<i>Accrued at 30 June 20X1</i>	<i>Charge to SPL year ended 30 June 20X1</i>
<input type="radio"/>	\$Nil	\$3,060
<input type="radio"/>	\$460	\$3,320
<input type="radio"/>	\$560	\$3,320
<input type="radio"/>	\$560	\$3,420

(2 marks)

- 10.8 The year end of M Co is 30 November 20X0. The company pays for its gas by a standing order of \$600 per month. On 1 December 20W9, the statement from the gas supplier showed that M Co had overpaid by \$200. M Co received gas bills for the four quarters commencing on 1 December 20W9 and ending on 30 November 20X0 for \$1,300, \$1,400, \$2,100 and \$2,000 respectively.

Which of the following is the correct charge for gas in M Inc's statement of profit or loss for the year ended 30 November 20X0?

- ☐ \$6,800
☐ \$7,000
☐ \$7,200
☐ \$7,400

(2 marks)

- 10.9 A business compiling its financial statements for the year to 31 January each year pays rent quarterly in advance on 1 January, 1 April, 1 July and 1 October each year. After remaining unchanged for some years, the rent was increased from \$24,000 per year to \$30,000 per year as from 1 July 20X0.

Which of the following figures is the rent expense which should appear in the statement of profit or loss for year ended 31 January 20X1?

- ☐ \$27,500
☐ \$29,500
☐ \$28,000
☐ \$29,000

(2 marks)

- 10.10 Blint, a limited liability company, receives rent for subletting part of its office premises to a number of tenants.

In the year ended 31 December 20X4 Blint received cash of \$318,600 from its tenants.

Details of rent in advance and in arrears at the beginning and end of 20X4 are as follows:

	31 December	
	20X4	20X3
	\$	\$
Rent received in advance	28,400	24,600
Rent owing by tenants	18,300	16,900

All rent owing was subsequently received.

What is the figure for rental income that Blint should include in its statement of profit or loss for 20X4?

\$

(2 marks)

- 10.11 During 20X4, Hild Co paid a total of \$60,000 for rent, covering the period from 1 October 20X3 to 31 March 20X5.

What figures should appear in Hild Co's financial statements for the year ended 31 December 20X4?

	Statement of profit or loss and other comprehensive income	Statement of financial position
	\$	\$
<input type="radio"/>	40,000	10,000 prepayment
<input type="radio"/>	40,000	15,000 prepayment
<input type="radio"/>	50,000	10,000 accrual
<input type="radio"/>	50,000	15,000 accrual

(2 marks)

- 10.12 The trainee accountant at Judd Co has forgotten to make an accrual for rent for December in the financial statements for the year ended 31 December 20X2. Rent is charged in arrears at the end of February, May, August and November each year. The bill payable in February is expected to be \$30,000. Judd Co's draft statement of profit or loss shows a profit of \$25,000 and draft statement of financial position shows net assets of \$275,000.

What is the profit or loss for the year and what is the net asset position after the accrual has been included in the financial statements?

	Profit for the year	Net asset position
<input type="radio"/>	\$15,000	\$265,000
<input type="radio"/>	\$15,000	\$285,000
<input type="radio"/>	\$35,000	\$265,000
<input type="radio"/>	\$35,000	\$285,000

(2 marks)

- 10.13 Buster's draft financial statements for the year to 31 October 20X5 report a loss of \$1,486. When he prepared the financial statements, Buster did not include an accrual of \$1,625 and a prepayment of \$834.

What is Buster's profit or loss for the year to 31 October 20X5 following the inclusion of the accrual and prepayment?

- ☐ A loss of \$695
☐ A loss of \$2,277
☐ A loss of \$3,945
☐ A profit of \$1,807

(2 marks)

- 10.14 Bookz Co pays royalties to writers annually, in February, the payment covering the previous calendar year.

As at the end of December 20X2, Bookz Co had accrued \$100,000 in royalties due to writers. However, a check of the royalty calculation performed in January 20X3 established that the actual figure due to be paid by Bookz Co to writers was \$150,000.

Before this under-accrual was discovered, Bookz Co's draft statement of profit or loss for the accounting year ended 31 December 20X2 showed a profit of \$125,000 and their draft statement of financial position showed net assets of \$375,000.

What will Bookz Co's profit and net asset position be after an entry to correct the under-accrual has been processed?

	<i>Profit for the year</i>	<i>Net asset position</i>
<input type="radio"/>	\$175,000	\$425,000
<input type="radio"/>	\$125,000	\$375,000
<input type="radio"/>	\$75,000	\$325,000
<input type="radio"/>	\$25,000	\$225,000

(2 marks)

- 10.15 Danya owns a small shop and the following information concerns the heat and light account for the year to 31 March 20X7:

	<i>Gas</i>	<i>Electricity</i>
At 31 March 20X6	1,000 prepayment	500 accrual
At 31 March 20X7	2,000 accrual	1,200 prepayment

During the year, Danya made payments of \$5,000 for gas and \$7,800 for electricity.

What is the total heat and light expense for the year ended 31 March 20X7?

- ☐ \$14,100
☐ \$13,100
☐ \$12,500
☐ \$11,500

(2 marks)

(Total = 30 marks)

11 Receivables and payables**48 mins**

- 11.1 Identify, by indicating the relevant box in the table below, whether each of the following statements is true or false.

Payables represent money the business owes.	True	False
Payables are an asset.	True	False
Receivables represent money owed to the business.	True	False

(2 marks)

- 11.2 At 31 December 20X2 Bunting Co's receivables totalled \$400,000 and an allowance for receivables of \$50,000 had been brought forward from the year ended 31 December 20X1.

It was decided to write off debts totalling \$38,000. The allowance for receivables was to be adjusted to the equivalent of 10% of the receivables.

What charge for receivables expense should appear in Bunting Co's statement of profit or loss for the year ended 31 December 20X2?

- ☐ \$74,200
☐ \$51,800
☐ \$28,000
☐ \$24,200

(2 marks)

- 11.3 At 1 July 20X2 the receivables allowance of Q was \$18,000.

During the year ended 30 June 20X3 debts totalling \$14,600 were written off. The receivables allowance required was to be \$16,000 as at 30 June 20X3.

What amount should appear in Q's statement of profit or loss for receivables expense for the year ended 30 June 20X3?

- ☐ \$12,600
☐ \$16,600
☐ \$48,600
☐ \$30,600

(2 marks)

- 11.4 At 30 September 20X2 Tester Co's allowance for receivables amounted to \$38,000, which was equivalent to 5% of the receivables at that date.

At 30 September 20X3 receivables totalled \$868,500. It was decided to write off \$28,500 of debts as irrecoverable. The allowance for receivables required was to be the equivalent of 5% of receivables.

What should be the charge in the statement of profit or loss for the year ended 30 September 20X3 for receivables expense?

\$	
----	--

(2 marks)

- 11.5 At 1 July 20X3 a limited liability Sugar Co had an allowance for receivables of \$83,000.

During the year ended 30 June 20X4 debts totalling \$146,000 were written off. At 30 June 20X4 a receivables allowance of \$218,000 was required.

What figure should appear in the company's statement of profit or loss for the year ended 30 June 20X4 for receivables expense?

- ☐ \$155,000
☐ \$364,000
☐ \$281,000
☐ \$11,000

(2 marks)

- 11.6 Pepper Co has received cash for a debt that was previously written off. Which of the following is the correct double entry to record the cash received?

DEBIT	CREDIT
<input type="radio"/> Irrecoverable debts expense	<input type="radio"/> Accounts receivable
<input type="radio"/> Cash	<input type="radio"/> Irrecoverable debts expense
<input type="radio"/> Allowance for receivables	<input type="radio"/> Accounts receivable
<input type="radio"/> Cash	<input type="radio"/> Allowance for receivables

(2 marks)

- 11.7 At 31 December 20X4 Whistle Co's trade receivables totalled \$864,000 and the allowance for receivables was \$48,000.

It was decided that debts totalling \$13,000 were to be written off. The allowance for receivables was to be adjusted to the equivalent of 5% of the receivables.

What figures should appear in the statement of financial position for trade receivables (after deducting the allowance) and in the statement of profit or loss for receivables expense?

	Statement of profit or loss \$	Statement of financial position \$
<input type="radio"/>	8,200	807,800
<input type="radio"/>	7,550	808,450
<input type="radio"/>	18,450	808,450
<input type="radio"/>	55,550	808,450

(2 marks)

- 11.8 Which of the following would a decrease in the allowance for receivables result in?

- ☐ An increase in liabilities
☐ A decrease in working capital
☐ A decrease in net profit
☐ An increase in net profit

(2 marks)

- 11.9 Jupiter Co has been notified that a customer has been declared bankrupt. The company had previously made an allowance for this debt. Which of the following is the correct double entry to account for this new information?

	DEBIT	CREDIT	
<input type="radio"/>	Irrecoverable debts	Receivables	
<input type="radio"/>	Receivables	Irrecoverable debts	
<input type="radio"/>	Allowance for receivables	Receivables	
<input type="radio"/>	Receivables	Allowance for receivables	(2 marks)

- 11.10 An increase in an allowance for receivables of \$8,000 has been treated as a reduction in the allowance in the financial statements. Which of the following explains the resulting effects?

- ☐ Net profit is overstated by \$16,000, receivables overstated by \$8,000
☐ Net profit understated by \$16,000, receivables understated by \$16,000
☐ Net profit overstated by \$16,000, receivables overstated by \$16,000
☐ Gross profit overstated by \$16,000, receivables overstated by \$16,000 (2 marks)

- 11.11 At 1 January 20X1, there was an allowance for receivables of \$3,000. During the year, \$1,000 of debts were written off as irrecoverable, and \$800 of debts previously written off were recovered. At 31 December 20X1, it was decided to adjust the allowance for receivables to 5% of receivables which are \$20,000.

What figure should be included in the statement of profit or loss as the receivables expense for the year?

\$ DEBIT/CREDIT (2 marks)

- 11.12 Top Co has total receivables outstanding of \$280,000. The accountant believes that approximately 1% of these balances will not be collected, so wishes to make an allowance of \$28,000. No previous allowance has been made for receivables.

Which of the following is the correct double entry to create this allowance?

	DEBIT	CREDIT	
<input type="radio"/>	Irrecoverable debts	Allowance for receivables	
<input type="radio"/>	Allowance for receivables	Receivables	
<input type="radio"/>	Irrecoverable debts	Receivables	
<input type="radio"/>	Receivables	Allowance for receivables	(2 marks)

- 11.13 At the beginning of the year, the allowance for receivables was \$850. At the year end, the allowance required was \$1,000. During the year \$500 of debts were written off, which includes \$100 previously included in the allowance for receivables.

What is the charge to statement of profit or loss for receivables expense for the year?

- ☐ \$1,500
☐ \$1,000
☐ \$650
☐ \$550

(2 marks)

- 11.14 Which **TWO** of the following statements are correct?

- ☐ An aged receivables analysis shows how long invoices for each customer have been outstanding.
☐ A credit limit is a tool applied by the credit control department to make suppliers provide goods on time.
☐ Receivables are included in the statement of financial position net of the receivables allowance.
☐ Credit limits are applied to customers who purchase goods using cash only.

(2 marks)

- 11.15 At 31 May 20X7 Roberta's trial balance included the following items.

	\$
Inventory at 1 June 20X6	23,856
Trade receivables	55,742
Trade payables	32,165
Bank overdraft	5,855
Loan due for repayment in 20X9	15,000

What is the carrying amount of Roberta's current liabilities at 31 May 20X7?

- ☐ \$38,020
☐ \$53,020
☐ \$61,597
☐ \$76,597

(2 marks)

- 11.16 Which one of the following statements is **NOT** a benefit of offering credit facilities to customers?

- ☐ Improved convenience for the customer
☐ The separation of product and service delivery from payment
☐ Provides time for appropriate payment approval procedures
☐ Fewer irrecoverable debts

(2 marks)

11.17 What is the correct double entry for discounts received?

- | <i>DEBIT</i> | <i>CREDIT</i> |
|---|-----------------------------|
| <input type="radio"/> Payables control account | Expenses |
| <input type="radio"/> Expenses | Payables control account |
| <input type="radio"/> Discounts received (income) | Payables control account |
| <input type="radio"/> Payables control account | Discounts received (income) |

(2 marks)

11.18 Which of the following is/are examples of payables of a business?

- 1 Interest owed from the bank
 - 2 Loans and advances to employees
 - 3 Money owed from customers
 - 4 Tax owed to the tax authority
- ☐ 1 and 3 only
☐ 2 and 3 only
☐ 2 and 4 only
☐ 4 only

(2 marks)

11.19 Which of the following is/are examples of payables of a business?

- 1 An estimation of tax owed to the tax authority for the year just ended
 - 2 \$500 owed to a supplier for invoiced goods
 - 3 An estimation of probable repair costs under warranty claims
- ☐ 1 and 2 only
☐ 1 and 3 only
☐ 2 only
☐ 1, 2 and 3

(2 marks)

- 11.20 A business commenced trading on 1 January 20X1. The following transactions with Supplier A have been recorded in the purchase ledger.

	1 January 20X1	Opening balance	\$nil
(1)	1 January 20X1	Purchase of goods	\$50
(2)	1 February 20X1	Purchase of goods	\$435
(3)	30 March 20X1	Payment	\$385
	31 March 20X1	Closing balance	\$100

On 31 March 20X1, the business receives the following statement from the supplier.

	Opening balance		\$nil
(4)	1 January 20X1	Invoice #365	\$50
(5)	1 February 20X1	Invoice #490	\$435
(6)	31 March 20X1	Invoice #533	\$35
	Closing balance		\$520

Which transactions should be noted as reconciling items on the supplier statement reconciliation at 31 March 20X1?

- ☐ 3 only
☐ 6 only
☐ 3 and 6 only
☐ 1 to 6

(2 marks)

(Total = 40 marks)

12 Provisions and contingencies

31 mins

- 12.1 Identify, by indicating the relevant box in the table below, whether each of the following statements about provisions and contingencies is true or false.

A company should disclose details of the change in carrying amount of a provision from the beginning to the end of the year.	True	False
Contingent assets must be recognised in the financial statements in accordance with the prudence concept.	True	False
Contingent liabilities must be treated as actual liabilities and provided for if it is probable that they will arise.	True	False

(2 marks)

12.2 Which of the following statements about contingent assets and contingent liabilities are correct?

- 1 A contingent asset should be disclosed by note if an inflow of economic benefits is probable.
 - 2 A contingent liability should be disclosed by note if it is probable that a transfer of economic benefits to settle it will be required, with no provision being made.
 - 3 No disclosure is required for a contingent liability if it is not probable that a transfer of economic benefits to settle it will be required.
 - 4 No disclosure is required for either a contingent liability or a contingent asset if the likelihood of a payment or receipt is remote.
- ☐ 1 and 4 only
☐ 2 and 3 only
☐ 2, 3 and 4
☐ 1, 2 and 4

(2 marks)

12.3 A former director of Biss Co has commenced an action against the company claiming substantial damages for wrongful dismissal. The company's solicitors have advised that the former director is unlikely to succeed with his claim, although the chance of Biss Co paying any monies to the ex-director is not remote. The solicitors' estimates of Biss Co's potential liabilities are:

	\$
Legal costs (to be incurred whether the claim is successful or not)	50,000
Settlement of claim if successful	500,000
	<u>550,000</u>

According to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, how should this claim be treated in Bliss Co's financial statements?

- ☐ Provision of \$550,000
☐ Disclose a contingent liability of \$550,000
☐ Disclose a provision of \$50,000 and a contingent liability of \$500,000
☐ Provision for \$500,000 and a contingent liability of \$50,000

(2 marks)

12.4 Identify, by indicating the relevant box in the table below, the correct action to be taken in the financial statements in respect of each item.

The company gives warranties on its products. The company's statistics show that about 5% of sales give rise to a warranty claim.	Create a provision	Disclosure note only	No action
The company has guaranteed the overdraft of another company. The likelihood of a liability arising under the guarantee is assessed as possible.	Create a provision	Disclosure note only	No action

(2 marks)

12.5 Which of the following statements about the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are correct?

- 1 A contingent asset should be disclosed by note if an inflow of economic benefits is probable.
- 2 No disclosure of a contingent liability is required if the possibility of a transfer of economic benefits arising is remote.
- 3 Contingent assets must not be recognised in financial statements unless an inflow of economic benefits is virtually certain to arise.
- ☐ All three statements are correct
- ☐ 1 and 2 only
- ☐ 1 and 3 only
- ☐ 2 and 3 only

(2 marks)

12.6 Wanda Co allows customers to return faulty goods within 14 days of purchase. At 30 November 20X5 a provision of \$6,548 was made for sales returns. At 30 November 20X6, the provision was re-calculated and should now be \$7,634.

What should be reported in Wanda Co's statement of profit or loss for the year to 31 October 20X6 in respect of the provision?

- ☐ A charge of \$7,634
- ☐ A credit of \$7,634
- ☐ A charge of \$1,086
- ☐ A credit of \$1,086

(2 marks)

12.7 Doggard Co is a business that sells second hand cars. If a car develops a fault within 30 days of the sale, Doggard Co will repair it free of charge.

At 30 April 20X4 Doggard Co had made a provision for repairs of \$2,500. At 30 April 20X5 Doggard Co calculated that the provision should be \$2,000.

What entry should be made for the provision in Doggard Co's statement of profit or loss for the year to 30 April 20X5?

- ☐ A charge of \$500
- ☐ A credit of \$500
- ☐ A charge of \$2,000
- ☐ A credit of \$2,000

(2 marks)

12.8 Which of the following best describes a provision according to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*?

- ☐ A provision is a liability of uncertain timing or amount.
- ☐ A provision is a possible obligation of uncertain timing or amount.
- ☐ A provision is a credit balance set up to offset a contingent asset so that the effect on the statement of financial position is nil.
- ☐ A provision is a possible asset that arises from past events.

(2 marks)

12.9 Which of the following items does the statement below describe?

According to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, 'A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control'.

- ☐ A provision
- ☐ A current liability
- ☐ A contingent liability
- ☐ A contingent asset

(2 marks)

12.10 Montague's paint shop has suffered some bad publicity as a result of a customer claiming to be suffering from skin rashes as a result of using a new brand of paint sold by Montague's shop. The customer launched a court action against Montague in November 20X3, claiming damages of \$5,000. Montague's lawyer has advised him that the most probable outcome is that he will have to pay the customer \$3,000.

What amount should Montague include as a provision in his financial statements for the year ended 31 December 20X3?

\$	
----	--

(2 marks)

12.11 Mobiles Co sells goods with a one year warranty under which customers are covered for any defect that becomes apparent within a year of purchase. In calendar year 20X4, Mobiles Co sold 100,000 units.

The company expects warranty claims for 5% of units sold. Half of these claims will be for a major defect, with an average claim value of \$50. The other half of these claims will be for a minor defect, with an average claim value of \$10.

What amount should Mobiles Co include as a provision in the statement of financial position for the year ended 31 December 20X4?

- ☐ \$125,000
- ☐ \$25,000
- ☐ \$300,000
- ☐ \$150,000

(2 marks)

12.12 When a provision is needed that involves a number of outcomes, the provision is calculated using the expected value of expenditure. The expected value of expenditure is the total expenditure of:

- ☐ Each possible outcome
- ☐ Each possible outcome weighted according to the probability of each outcome happening
- ☐ Each possible outcome divided by the number of outcomes
- ☐ Each possible outcome multiplied by the number of outcomes

(2 marks)

- 12.13 X Co sells goods with a one year warranty and had a provision for warranty claims of \$64,000 at 31 December 20X0. During the year ended 31 December 20X1, \$25,000 in claims were paid to customers. On 31 December 20X1, X Co estimated that the following claims will be paid in the following year:

Scenario	Probability	Anticipated cost
Worst case	5%	\$150,000
Best case	20%	\$25,000
Most likely	75%	\$60,000

What amount should X Co record in the statement of profit or loss for the year ended 31 December 20X1 in respect of the provision?

- ☐ \$57,500
☐ \$6,500
☐ \$18,500
☐ \$39,000

(2 marks)

(Total = 26 marks)

13 Capital structure and finance costs

34 mins

- 13.1 The issued share capital of Alpha, a limited liability company, is as follows:

	\$
Ordinary shares of 10c each	1,000,000
8% Redeemable preference shares of 50c each	500,000

In the year ended 31 October 20X2, the company has paid the preference dividend for the year and an interim dividend of 2c per share on the ordinary shares. A final ordinary dividend of 3c per share was proposed, after the reporting date.

What amount will be shown as dividends in the statement of changes in equity at 31 October 20X2?

\$

(2 marks)

- 13.2 When a company makes a rights issue of equity shares which of the following effects will the issue have?

- 1 Assets are increased
- 2 Retained earnings are reduced
- 3 Share premium account is reduced
- 4 Investments are increased

- ☐ 1 only
☐ 1 and 2
☐ 3 only
☐ 1 and 4

(2 marks)

- 13.3 A company made an issue for cash of 1,000,000 50c shares at a premium of 30c per share. Which one of the following journal entries correctly records the issue?

	DEBIT \$	CREDIT \$	
<input type="radio"/> Share capital	500,000		
Share premium	300,000		
Bank		800,000	
<input type="radio"/> Bank	800,000		
Share capital		500,000	
Share premium		300,000	
<input type="radio"/> Bank	1,300,000		
Share capital		1,000,000	
Share premium		300,000	
<input type="radio"/> Share capital	1,000,000		
Share premium		300,000	
Bank		1,300,000	(2 marks)

- 13.4 At 31 December 20X1 the capital structure of Venus Co was as follows:

	\$
Ordinary share capital	
100,000 shares of 50c each	50,000
Share premium account	180,000

During 20X2 Venus Co made a bonus issue of one share for every two held, using the share premium account for the purpose, and later issued for cash another 60,000 shares at 80c per share.

What is Venus Co's capital structure at 31 December 20X2?

	Ordinary share capital \$	Share premium account \$	
<input type="radio"/>	130,000	173,000	
<input type="radio"/>	105,000	173,000	
<input type="radio"/>	130,000	137,000	
<input type="radio"/>	105,000	137,000	(2 marks)

- 13.5 An organisation's year end is 30 September. On 1 January 20X6 the organisation took out a loan of \$100,000 with annual interest of 12%. The interest is payable in equal instalments on the first day of April, July, October and January in arrears.

How much should be charged to the statement of profit or loss (SPL) for the year ended 30 September 20X6, and how much should be accrued on the statement of financial position (SOFP)?

	SPL	SOFP	
<input type="radio"/>	\$12,000	\$3,000	
<input type="radio"/>	\$9,000	\$3,000	
<input type="radio"/>	\$9,000	NIL	
<input type="radio"/>	\$6,000	\$3,000	(2 marks)

- 13.6 Identify, by indicating the relevant box in the table below, whether each of the following statements about company financial statements is true or false, according to International Financial Reporting Standards.

Dividends paid on ordinary shares should be included in the statement of profit or loss and other comprehensive income.	True	False
Dividends paid on redeemable preference shares are treated in the same way as dividends paid on ordinary shares.	True	False
The statement of profit or loss and other comprehensive income shows the gain on revaluation of non-current assets for the period.	True	False

(2 marks)

- 13.7 At 30 June 20X2 Walker Co's capital structure was as follows:

	\$
Ordinary share capital	
500,000 shares of 25c each	125,000
Share premium account	100,000

In the year ended 30 June 20X3 the company made a rights issue of one share for every two held at \$1 per share and this was taken up in full. Later in the year the company made a bonus issue of one share for every five held, using the share premium account for the purpose.

What was Walker Co's capital structure at 30 June 20X3?

	Ordinary share capital \$	Share premium account \$
<input type="radio"/>	450,000	25,000
<input type="radio"/>	225,000	325,000
<input type="radio"/>	225,000	250,000
<input type="radio"/>	212,500	262,500

(2 marks)

- 13.8 At 30 June 20X2 a Runner Co had \$1 million 8% loan notes in issue, interest being paid half-yearly on 30 June and 31 December.

On 30 September 20X2 Runner Co redeemed \$250,000 of these loan notes at par, paying interest due to that date.

On 1 April 20X3 Runner Co issued \$500,000 7% loan notes, interest payable half-yearly on 31 March and 30 September.

What figure should appear in Runner Co's statement of profit or loss for interest payable in the year ended 30 June 20X3?

\$

(2 marks)

- 13.9 A limited liability company issued 50,000 ordinary shares of 25c each at a premium of 50c per share. The cash received was correctly recorded but the full amount was credited to the ordinary share capital account.

Which one of the following journal entries is needed to correct this error?

	DEBIT \$	CREDIT \$	
<input type="radio"/> Share premium account	25,000		
Share capital account		25,000	
<input type="radio"/> Share capital account	25,000		
Share premium account		25,000	
<input type="radio"/> Share capital account	37,500		
Share premium account		37,500	
<input type="radio"/> Share capital account	25,000		
Cash		25,000	(2 marks)

- 13.10 Which one of the following journal entries could correctly record a bonus issue of shares?

	DEBIT \$	CREDIT \$	
<input type="radio"/> Cash	100,000		
Ordinary share capital		100,000	
<input type="radio"/> Ordinary share capital	100,000		
Share premium		100,000	
<input type="radio"/> Share premium	100,000		
Ordinary share capital		100,000	
<input type="radio"/> Investments	100,000		
Cash		100,000	(2 marks)

- 13.11 Which of these statements about limited liability companies is/are correct?

- 1 A company might make a bonus issue of shares to raise funds for expansion.
 - 2 No cash is received when a company makes a rights issue of shares, instead other reserves (usually share premium) are capitalised and reclassified as share capital.
 - 3 A rights issue of shares dilutes the shareholding of existing shareholders if they do not take up their rights.
- ☐ 1 and 3
☐ 2 and 3
☐ 1 and 2
☐ 3 only

(2 marks)

13.12 At 1 January 20X0 the capital structure of Q, a limited liability company, was as follows:

	\$
Issued share capital 1,000,000 ordinary shares of 50c each	500,000
Share premium account	300,000

On 1 April 20X0 the company made an issue of 200,000 50c shares at \$1.30 each, and on 1 July the company made a bonus (capitalisation) issue of one share for every four in issue at the time, using the share premium account for the purpose.

Which of the following correctly states the company's share capital and share premium account at 31 December 20X0?

	Share capital	Share premium account
<input type="radio"/>	\$750,000	\$230,000
<input type="radio"/>	\$875,000	\$285,000
<input type="radio"/>	\$750,000	\$310,000
<input type="radio"/>	\$750,000	\$610,000

(2 marks)

13.13 According to the illustrative financial structure in IAS 1 *Presentation of Financial Statements*, where should dividends paid during the year be presented?

- ☐ Statement of profit or loss and other comprehensive income
- ☐ Statement of changes in equity
- ☐ Statement of financial position
- ☐ None of these

(2 marks)

13.14 On 31 March 2016, Yellow, a limited liability company, issued share capital of \$50,000 (25c ordinary shares). The company also has an investment of 50,000 50c shares in Blue, a limited liability company.

The following is an extract from Yellow's ledger accounts:

Dividend	
	30 September 2016 Bank \$5,000

Which of the following statements is correct?

- ☐ Yellow has paid an interim dividend of 5c per share.
- ☐ Yellow has received a 20% interim dividend.
- ☐ Yellow has received a 10% interim dividend.
- ☐ Yellow has paid a 10% interim dividend.

(2 marks)

(Total = 28 marks)

Do you know? – Preparing a trial balance

Check that you can fill in the blanks in the statements below before you attempt any questions. If in doubt, you should go back to your BPP Workbook and revise first.

- A reconciliation is a comparison of a **b**..... **s**..... (sent monthly, weekly or even daily by the bank) with the cash book. Differences between the balance on the bank statement and the balance in the cash book will be errors or differences, and they should be identified and satisfactorily explained.
- Differences between the cash book and the bank statement arise for three reasons:
 - – usually in the cash book
 - Omissions – such as **b**..... **c**..... not posted in the cash book
 - **T**..... differences – such as unpresented cheques
- There are five main types of error: errors of **t**....., **a**....., **pr**....., **c**....., and **comp**..... errors.
- A suspense account is an account showing a balance equal to the difference in a **t**..... **b**.....
- Suspense accounts are only None should exist when it comes to drawing up the financial statements at the end of the accounting period.
- The two most important control accounts are those for and They are part of the double entry system.
- Cash books and day books are totalled periodically and the totals posted to the **c**..... accounts. The balance totals on the **p**..... accounts should agree to the balance on the **c**..... account.
- Discounts can be defined as follows:
 - A discount is a reduction in the list price of an article, given by a wholesaler or manufacturer to a retailer.
 - A discount is a reduction in the amount payable for the purchase of goods or services in return for payment in cash, or within an agreed period.
- discounts received are **d**..... from the cost of purchases. **C**..... discounts received are included as **a**..... **i**..... of the period in the statement of profit or loss.
- discounts allowed are **d**..... from the gross sales price, and this amount is invoiced to the customer.
- If a customer is expected to take up a or discount allowed, the discount is deducted from the invoiced amount when recording the revenue for the sale. If the customer subsequently does not take up the discount, the discount is then recorded as revenue.
- If the customer is not expected to take up a or discount allowed, the full invoiced amount is recognised as revenue when recording the sale.

Do you know? – Preparing a trial balance

Could you fill in the blanks? The answers are in bold. Use this page for revision purposes as you approach the exam.

- A **bank** reconciliation is a comparison of a **bank statement** (sent monthly, weekly or even daily by the bank) with the cash book. Differences between the balance on the bank statement and the balance in the cash book will be errors or **timing** differences, and they should be identified and satisfactorily explained.
- Differences between the cash book and the bank statement arise for three reasons:
 - **Errors** – usually in the cash book
 - Omissions – such as **bank charges** not posted in the cash book
 - **Timing** differences – such as unpresented cheques
- There are five main types of error: errors of **transposition**, **omission**, **principle**, **commission** and **compensating** errors.
- A suspense account is an account showing a balance equal to the difference in a **trial balance**.
- Suspense accounts are only **temporary**. None should exist when it comes to drawing up the financial statements at the end of the accounting period.
- The two most important control accounts are those for **receivables** and **payables**. They are part of the double entry system.
- Cash books and day books are totalled periodically and the totals posted to the **control** accounts. The balance totals on the **personal** accounts should agree to the balance on the **control** account.
- Discounts can be defined as follows:
 - A **trade** discount is a reduction in the list price of an article, given by a wholesaler or manufacturer to a retailer.
 - A **cash (settlement)** discount is a reduction in the amount payable for the purchase of goods or services in return for payment in cash, or within an agreed period.
- **Trade** discounts received are **deducted** from the cost of purchases. **Cash (or settlement)** discounts received are included as **other income** of the period in the statement of profit or loss.
- **Trade** discounts allowed are **deducted** from the gross sales price, and this amount is invoiced to the customer.
- If a customer is expected to take up a **cash** or **settlement** discount allowed, the discount is deducted from the invoiced amount when recording the revenue for the sale. If the customer subsequently does not take up the discount, the discount is then recorded as revenue.
- If the customer is not expected to take up a **cash** or **settlement** discount allowed, the full invoiced amount is recognised as revenue when recording the sale.

14 15 mark question: trial balance**18 mins**

14.1 Mr Yousef

The following balances have been extracted from the ledger of Mr Yousef, a sole trader at 31 May 20X6.

Task 1

Indicate whether each of these balances are debit or credit balances (Mr Yousef is not overdrawn at the bank).

		DEBIT	CREDIT
	\$		
Sales	138,078	<input type="radio"/>	<input type="radio"/>
Purchases	82,350	<input type="radio"/>	<input type="radio"/>
Carriage	5,144	<input type="radio"/>	<input type="radio"/>
Drawings	7,800	<input type="radio"/>	<input type="radio"/>
Rent and insurance	6,622	<input type="radio"/>	<input type="radio"/>
Postage and stationery	3,001	<input type="radio"/>	<input type="radio"/>
Advertising	1,330	<input type="radio"/>	<input type="radio"/>
Salaries and wages	26,420	<input type="radio"/>	<input type="radio"/>
Irrecoverable debts	877	<input type="radio"/>	<input type="radio"/>
Allowance for receivables	130	<input type="radio"/>	<input type="radio"/>
Receivables	12,120	<input type="radio"/>	<input type="radio"/>
Payables	6,471	<input type="radio"/>	<input type="radio"/>
Cash on hand	177	<input type="radio"/>	<input type="radio"/>
Cash at bank	1,002	<input type="radio"/>	<input type="radio"/>
Inventory as at 1 June 20X5	11,927	<input type="radio"/>	<input type="radio"/>
Equipment at cost	58,000	<input type="radio"/>	<input type="radio"/>
Accumulated depreciation	19,000	<input type="radio"/>	<input type="radio"/>
Capital at 1 June 20X5	53,091	<input type="radio"/>	<input type="radio"/>

The following additional information as at 31 May 20X6 is available.

- Rent is accrued by \$210.
- Insurance has been prepaid by \$880.
- \$2,211 of carriage represents carriage inwards on purchases.
- Equipment is to be depreciated at 15% per year using the straight line method.
- The allowance for receivables is to be increased by \$40.
- Inventory at the close of business has been valued at \$13,551.

(6 marks)**Task 2**

Calculate cost of sales at 31 May 20X6.

\$	
----	--

(3 marks)**Task 3**

Complete this sentence:

Profit for the year will be (increased/decreased) by the rent accrual and (increased/decreased) by the insurance prepayment.

(2 marks)

Task 4

If profit for the year ended 31 May 20X6 is \$5,888, what will be the capital balance at 31 May 20X6?

(2 marks)

Task 5

What will be the carrying amount of equipment at 31 May 20X6?

(2 marks)

(Total = 15 marks)

15 Control accounts**48 mins**

15.1 You are given the following information:

Receivables at 1 January 20X3	\$10,000
Receivables at 31 December 20X3	\$9,000
Total receipts during 20X3 (including cash sales of \$5,000)	\$85,000

What is the figure for sales on credit during 20X3?

(2 marks)

15.2 A supplier sends you a statement showing a balance outstanding of \$14,350. Your own records show a balance outstanding of \$14,500.

Which one of the following could be the reason for this difference?

- ☐ The supplier sent an invoice for \$150 which you have not yet received.
- ☐ The supplier has allowed you \$150 cash discount which you had omitted to enter in your ledgers.
- ☐ You have paid the supplier \$150 which he has not yet accounted for.
- ☐ You have returned goods worth \$150 which the supplier has not yet accounted for.

(2 marks)

15.3 Your payables control account has a balance at 1 October 20X8 of \$34,500 credit. During October, credit purchases were \$78,400, cash purchases were \$2,400 and payments made to suppliers, excluding cash purchases, and after deducting settlement discounts of \$1,200, were \$68,900. Purchase returns were \$4,700.

What was the closing balance?

- ☐ \$38,100
- ☐ \$40,500
- ☐ \$47,500
- ☐ \$49,900

(2 marks)

- 15.4 A receivables ledger control account had a closing balance of \$8,500. It contained a contra to the payables ledger of \$400, but this had been entered on the wrong side of the control account.

What should be the correct balance on the control account?

- ☐ \$7,700 DEBIT
☐ \$8,100 DEBIT
☐ \$8,400 DEBIT
☐ \$8,900 DEBIT

(2 marks)

- 15.5 Which of the following items could appear on the credit side of a receivables ledger control account?

- 1 Cash received from customers
 2 Irrecoverable debts written off
 3 Increase in allowance for receivables
 4 Sales
 5 Credits for goods returned by customers
 6 Cash refunds to customers

- ☐ 1, 2, and 5
☐ 1, 2, 3 and 6
☐ 3, 4 and 5
☐ 4 and 6

(2 marks)

- 15.6 An inexperienced bookkeeper has drawn up the following receivables ledger control account:

RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
Opening balance	180,000	Credit sales	190,000
Cash from credit customers	232,200	Irrecoverable debts written off	1,500
Sales returns	8,000	Contras against payables	2,400
Cash refunds to credit customers	3,300	Closing balance (balancing figure)	229,600
	<u>423,500</u>		<u>423,500</u>

What should the closing balance be after correcting the errors made in preparing the account?

- ☐ \$130,600
☐ \$129,200
☐ \$142,400
☐ \$214,600

(2 marks)

15.7 The payables ledger control account below contains a number of errors:

PAYABLES LEDGER CONTROL ACCOUNT

	\$		\$
Opening balance (amounts owed to suppliers)	318,600	Purchases	1,268,600
Cash paid to suppliers	1,364,300	Contras against debit balances in receivables ledger	48,000
Purchases returns	41,200	Discounts received	8,200
Refunds received from suppliers	2,700	Closing balance	402,000
	<u>\$1,726,800</u>		<u>\$1,726,800</u>

All items relate to credit purchases.

What should the closing balance be when all the errors are corrected?

- ☐ \$128,200
☐ \$509,000
☐ \$224,200
☐ \$144,600

(2 marks)

15.8 The following control account has been prepared by a trainee accountant:

RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
Opening balance	308,600	Cash received from credit customers	148,600
Credit sales	154,200	Interest charged on overdue accounts	2,400
Cash sales	88,100	Irrecoverable debts written off	4,900
Contras against credit balances in payables ledger	4,600	Allowance for receivables	2,800
	<u>555,500</u>	Closing balance	396,800
			<u>555,500</u>

Once all the errors made in preparing the receivables ledger control account have been corrected, what should the closing balance be?

\$

(2 marks)

- 15.9 The following receivables ledger control account prepared by a trainee accountant contains a number of errors:

RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
20X4		20X4	
1 Jan Balance	614,000	31 Dec Credit sales	301,000
31 Jan Cash from credit customers	311,000		
Contras against amounts due to suppliers in payables ledger	8,650	Irrecoverable debts written off	35,400
		Interest charged on overdue accounts	1,600
		Balance	595,650
	<u>933,650</u>		<u>933,650</u>

What should the closing balance on the control account be after the errors in it have been corrected?

- ☐ \$561,550
☐ \$578,850
☐ \$581,550
☐ \$568,350

(2 marks)

- 15.10 Your organisation sold goods to PQ Co for \$800 less trade discount of 20% and settlement discount of 5% for payment within 14 days. At the time of the sale, you expect PQ to take up the settlement discount. The invoice was settled by cheque five days later. Which one of the following gives the entries required to record **BOTH** of these transactions?

	DEBIT \$	CREDIT \$
<input type="radio"/> PQ Co		608
Sales		608
Bank	608	
PQ Co	608	
<input type="radio"/> PQ Co		640
Sales		640
Bank	640	
PQ Co	640	
<input type="radio"/> PQ Co		608
Sales		608
Bank	640	
PQ Co	608	
Sales		32
<input type="radio"/> PQ Co		640
Sales		640
Bank	608	
Sales	32	
PQ Co	640	

(2 marks)

- 15.11 Which one of the following is **NOT** a purpose of a receivables ledger control account?
- ☐ A receivables ledger control account provides a check on the overall accuracy of the personal ledger accounts.
 - ☐ A receivables ledger control account ensures the trial balance balances.
 - ☐ A receivables ledger control account aims to ensure there are no errors in the personal ledger.
 - ☐ Control accounts help deter fraud.
- (2 marks)**

- 15.12 Which of the following lists is composed only of items which would appear on the credit side of the receivables control account?
- ☐ Cash received from customers, sales returns, irrecoverable debts written off, contra against amounts due to suppliers in the accounts payable ledger
 - ☐ Sales, cash refunds to customers, irrecoverable debts written off
 - ☐ Cash received from customers, interest charged on overdue accounts, irrecoverable debts written off
 - ☐ Sales, cash refunds to customers, interest charged on overdue accounts, contra against amounts due to suppliers in the accounts payable ledger
- (2 marks)**

- 15.13 The following receivables ledger control account has been prepared by a trainee accountant:

RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
20X5		20X5	
1 Jan Balance	318,650	31 Jan Cash from credit customers	181,140
Credit sales	163,010	Interest charged on overdue accounts	280
Cash sales	84,260	Irrecoverable debts written off	1,390
		Sales returns from credit customers	3,990
		Balance	379,120
	<u>565,920</u>		<u>565,920</u>

What should the closing balance at 31 January 20X5 be after correcting the errors in the account?

- ☐ \$294,860
 - ☐ \$298,200
 - ☐ \$295,420
 - ☐ \$379,680
- (2 marks)**

15.14 At 1 April 20X9, the payables ledger control account showed a balance of \$142,320.

At the end of April the following totals are extracted from the subsidiary books for April:

	\$
Purchases day book	183,800
Returns outwards day book	27,490
Returns inwards day book	13,240
Payments to payables, after deducting \$1,430 cash discount	196,360

It is also discovered that:

- (a) The purchase day book figure is net of sales tax at 17.5%; the other figures all include sales tax.
- (b) A customer's balance of \$2,420 has been offset against their balance of \$3,650 in the payables ledger.
- (c) A supplier's account in the payables ledger, with a debit balance of \$800, has been included on the list of payables as a credit balance.

What is the corrected balance on the payables ledger control account?

- ☐ \$130,585
- ☐ \$144,835
- ☐ \$98,429
- ☐ \$128,985

(2 marks)

15.15 The balance on Jude Co's payables ledger control account is \$31,554. The accountant at Jude Co has discovered that she has not recorded:

- A settlement discount of \$53 received from a supplier; and
- A supplier's invoice for \$622.

What amount should be reported for payables on Jude Co's statement of financial position?

- ☐ \$30,879
- ☐ \$30,985
- ☐ \$32,123
- ☐ \$32,229

(2 marks)

- 15.16 The accountant at Borris Co has prepared the following reconciliation between the balance on the trade payables ledger control account in the general ledger and the list of balances from the suppliers ledger:

	\$
Balance on general ledger control account	68,566
Credit balance omitted from list of balances from payables ledger	<u>(127)</u>
	68,439
Undercasting of purchases day book	<u>99</u>
Total of list of balances	<u>68,538</u>

What balance should be reported on Borris Co's statement of financial position for trade payables?

- ☐ \$68,439
☐ \$68,538
☐ \$68,566
☐ \$68,665

(2 marks)

- 15.17 How should the balance on the payables ledger control account be reported in the final financial statements?

- ☐ As an expense account
☐ As a non-current liability
☐ As a current asset
☐ As a current liability

(2 marks)

- 15.18 Y Ltd keeps a receivables ledger control account as part of its accounting system.

The following transactions take place in March:

- (a) Invoices totalling \$5,000 are raised to Customer X in March. These invoices offer the customer a 5% discount if they pay within 14 days. Of these invoices, Y Ltd expects invoices amounting to \$2,000 to be paid with the discount taken.
- (b) Customer Z pays cash of \$2,850 for invoices with face values of \$3,000. They took advantage of discounts totalling \$150 for early payment, however Y Ltd had not expected Customer Z to take up the discounts.

Which of the following entries correctly record these transactions?

- ☐ DEBIT receivables ledger control \$5,000, CREDIT sales \$5,000, DEBIT cash \$2,850, CREDIT receivables ledger control \$2,850
☐ DEBIT receivables ledger control \$4,900, CREDIT sales \$4,900, DEBIT cash \$2,850, DEBIT sales \$150, CREDIT receivables ledger control \$3,000
☐ DEBIT receivables ledger control \$5,000, CREDIT sales \$5,000, DEBIT cash \$2,850, DEBIT sales \$150, CREDIT receivables ledger control \$3,000
☐ DEBIT receivables ledger control \$4,900, CREDIT sales \$4,900, DEBIT cash \$2,850, CREDIT receivables ledger control \$2,850

(2 marks)

- 15.19 You are an accounts assistant at Cuppa Supplies, a company that sells cups and mugs. The following is an extract from a sales invoice raised by the bookkeeper in your company to a customer, Oasis Café.

Invoice No: 3242

Date: 31 October 20X6

Description	Qty	Unit Price	Net amt
		\$	\$
Coffee cups	200	5.00	1,000.00
		Sales Value	1,000.00
		Sales Tax	0.00
		Amt payable	<u>1,000.00</u>

A discount of 5% of the full price applies if payment is made within seven days.

If you pay within seven days, the discounted price is: 950.00

Senior management at your company do not expect Oasis Café to take advantage of the discount. However, you receive a payment from Oasis Café on 3 November 20X6.

Which one of the following gives the entries required to record **BOTH** of these transactions?

	DEBIT	CREDIT
	\$	\$
<input type="radio"/> Trade receivables	950	
Sales		950
Bank	950	
Trade receivables		950
<input type="radio"/> Trade receivables	1,000	
Sales		1,000
Bank	950	
Trade receivables		950
<input type="radio"/> Trade receivables	1,000	
Sales		1,000
Bank	950	
Sales	50	
Trade receivables		1,000
<input type="radio"/> Trade receivables	950	
Sales		950
Bank	950	
Sales	50	
Trade receivables		1,000

(2 marks)

15.20 D Co's year-end balance on the receivables control account does not agree to the total of the list of receivables ledger balances of \$560,000. The following errors have been identified:

- (a) An irrecoverable receivable balance of \$30,000 has been correctly written off in the receivables control account but no adjustment has been made in the relevant customer's account in the receivables ledger.
- (b) Early settlement discounts of \$12,500, which were not expected to be taken at the time the invoice was raised, have been omitted from both the receivables control account and the receivables ledger balances.

What was the balance on the receivables control account **AFTER** the errors were corrected?

- ☐ \$505,000
- ☐ \$530,000
- ☐ \$542,500
- ☐ \$517,500

(2 marks)

(Total = 40 marks)

16 Bank reconciliations

36 mins

16.1 Your cash book at 31 December 20X3 shows a bank balance of \$565 overdrawn. On comparing this with your bank statement at the same date, you discover the following.

- (a) A cheque for \$57 drawn by you on 29 December 20X3 has not yet been presented for payment.
- (b) A cheque for \$92 from a customer, which was paid into the bank on 24 December 20X3, has been dishonoured on 31 December 20X3.

What is the correct bank balance to be shown in the statement of financial position at 31 December 20X3?

- ☐ \$714 overdrawn
- ☐ \$657 overdrawn
- ☐ \$473 overdrawn
- ☐ \$53 overdrawn

(2 marks)

16.2 The cash book shows a bank balance of \$5,675 overdrawn at 31 August 20X5. It is subsequently discovered that a standing order for \$125 has been entered twice, and that a dishonoured cheque for \$450 has been debited in the cash book instead of credited.

What is the correct bank balance?

\$ overdrawn.

(2 marks)

- 16.3 A business had a balance at the bank of \$2,500 at the start of the month. During the following month, it paid for materials invoiced at \$1,000 less trade discount of 20% and settlement discount of 10%. It received a cheque from a customer in respect of an invoice for \$200, subject to settlement discount of 5%.

What was the balance at the bank at the end of the month?

- ☐ \$1,970
- ☐ \$1,980
- ☐ \$1,990
- ☐ \$2,000

(2 marks)

- 16.4 The bank statement on 31 October 20X7 showed an overdraft of \$800. On reconciling the bank statement, it was discovered that a cheque drawn by your company for \$80 had not been presented for payment, and that a cheque for \$130 from a customer had been dishonoured on 30 October 20X7, but that this had not yet been notified to you by the bank.

What is the correct bank balance to be shown in the statement of financial position at 31 October 20X7?

- ☐ \$1,010 overdrawn
- ☐ \$880 overdrawn
- ☐ \$750 overdrawn
- ☐ \$720 overdrawn

(2 marks)

- 16.5 The following information relates to a bank reconciliation.

- (a) The bank balance in the cashbook before taking the items below into account was \$8,970 overdrawn.
- (b) Bank charges of \$550 on the bank statement have not been entered in the cashbook.
- (c) The bank has credited the account in error with \$425 which belongs to another customer.
- (d) Cheque payments totalling \$3,275 have been entered in the cashbook but have not been presented for payment.
- (e) Cheques totalling \$5,380 have been correctly entered on the debit side of the cashbook but have not been paid in at the bank.

What was the balance as shown by the bank statement **BEFORE** taking the above items into account?

- ☐ \$9,520 overdrawn
- ☐ \$11,200 overdrawn
- ☐ \$9,520 in credit
- ☐ \$11,200 in credit

(2 marks)

- 16.6 The following bank reconciliation statement has been prepared by a trainee accountant:

BANK RECONCILIATION 30 SEPTEMBER 20X2

	\$
Balance per bank statement (overdrawn)	36,840
Add: lodgements credited after date	<u>51,240</u>
	88,080
Less: unpresented cheques	<u>43,620</u>
Balance per cash book (credit)	<u>44,460</u>

Assuming the amounts stated for items other than the cash book balance are correct, what should the cash book balance be?

- ☐ \$44,460 CREDIT as stated
- ☐ \$60,020 CREDIT
- ☐ \$29,220 DEBIT
- ☐ \$29,220 CREDIT

(2 marks)

- 16.7 Listed below are some possible causes of difference between the cash book balance and the bank statement balance when preparing a bank reconciliation.

Which **TWO** of these items require an entry in the cash book?

- ☐ Cheque paid in, subsequently dishonoured
- ☐ Error by bank
- ☐ Bank charges
- ☐ Lodgements credited after date
- ☐ Cheques not yet presented

(2 marks)

- 16.8 In preparing a company's bank reconciliation statement at March 20X3, the following items are causing the difference between the cash book balance and the bank statement balance:

- 1 Bank charges \$380
- 2 Error by bank \$1,000 (cheque incorrectly debited to the account)
- 3 Lodgements not credited \$4,580
- 4 Unpresented cheques \$1,475
- 5 Direct debit \$350
- 6 Cheque paid in by the company and dishonoured \$400

Which of these items will require an entry in the cash book?

- ☐ 2, 4 and 6
- ☐ 1, 5 and 6
- ☐ 3 and 4
- ☐ 3 and 5

(2 marks)

16.9 The following bank reconciliation statement has been prepared by a trainee accountant:

	\$
Overdraft per bank statement	3,860
Less: unpresented cheques	<u>9,160</u>
	5,300
Add: deposits credited after date	<u>16,690</u>
Cash at bank as calculated above	<u>21,990</u>

What should be the correct balance per the cash book?

- ☐ \$21,990 balance at bank as stated
☐ \$3,670 balance at bank
☐ \$11,390 balance at bank
☐ \$3,670 overdrawn

(2 marks)

16.10 Which of the following statements about bank reconciliations are correct?

- 1 A difference between the cash book and the bank statement must be corrected by means of a journal entry.
 - 2 In preparing a bank reconciliation, lodgements recorded before date in the cash book but credited by the bank after date should reduce an overdrawn balance in the bank statement.
 - 3 Bank charges not yet entered in the cash book should be dealt with by an adjustment in the bank reconciliation statement.
 - 4 If a cheque received from a customer is dishonoured after date, a credit entry in the cash book is required.
- ☐ 2 and 4
☐ 1 and 4
☐ 2 and 3
☐ 1 and 3

(2 marks)

16.11 The following information relates to a bank reconciliation.

- (a) The bank balance in the cashbook before taking the items below into account was \$8,970 overdrawn.
- (b) Bank charges of \$550 on the bank statement have not been entered in the cashbook.
- (c) The bank has credited the account in error with \$425 which belongs to another customer.
- (d) Cheque payments totalling \$3,275 have been entered in the cashbook but have not been presented for payment.
- (e) Cheques totalling \$5,380 have been correctly entered on the debit side of the cashbook but have not been paid in at the bank.

What was the balance as shown by the bank statement **before** taking the items above into account?

\$ overdrawn

(2 marks)

16.12 The following attempt at a bank reconciliation statement has been prepared by Q Co:

	\$
Overdraft per bank statement	38,600
Add: deposits not credited	<u>41,200</u>
	79,800
Less: unpresented cheques	<u>3,300</u>
Overdraft per cash book	<u>76,500</u>

Assuming the bank statement balance of \$38,600 to be correct, what **should** the cash book balance be?

- ☐ \$76,500 overdrawn, as stated
- ☐ \$5,900 overdrawn
- ☐ \$700 overdrawn
- ☐ \$5,900 cash at bank

(2 marks)

16.13 After checking a business cash book against the bank statement, which of the following items could require an entry in the cash book?

- 1 Bank charges
- 2 A cheque from a customer which was dishonoured
- 3 Cheque not presented
- 4 Deposits not credited
- 5 Credit transfer entered in bank statement
- 6 Standing order entered in bank statement.

- ☐ 1, 2, 5 and 6
- ☐ 3 and 4
- ☐ 1, 3, 4 and 6
- ☐ 3, 4, 5 and 6

(2 marks)

16.14 The following bank reconciliation statement has been prepared for a Red Co:

	\$
Overdraft per bank statement	39,800
Add: Deposits credited after date	<u>64,100</u>
	103,900
Less: Unpresented cheques presented after date	<u>44,200</u>
Overdraft per cash book	<u>59,700</u>

Assuming the amount of the overdraft per the bank statement of \$39,800 is correct, what should be the balance in the cash book?

- ☐ \$158,100 overdrawn
- ☐ \$19,900 overdrawn
- ☐ \$68,500 overdrawn
- ☐ \$59,700 overdrawn

(2 marks)

16.15 Listed below are five potential causes of difference between a company's cash book balance and its bank statement balance as at 30 November 20X3:

- 1 Cheques recorded and sent to suppliers before 30 November 20X3 but not yet presented for payment
- 2 An error by the bank in crediting to another customer's account a lodgement made by the company
- 3 Bank charges
- 4 Cheques paid in before 30 November 20X3 but not credited by the bank until 3 December 20X3
- 5 A cheque recorded and paid in before 30 November 20X3 but dishonoured by the bank

Which one of the following alternatives correctly analyses these items into those requiring an entry in the cash book and those that would feature in the bank reconciliation?

	<i>Cash book entry</i>	<i>Bank reconciliation</i>	
<input type="radio"/>	1, 2, 4	3, 5	
<input type="radio"/>	3, 5	1, 2, 4	
<input type="radio"/>	3, 4	1, 2, 5	
<input type="radio"/>	2, 3, 5	1, 4	(2 marks)

(Total = 30 marks)

17 Correction of errors

44 mins

17.1 The debit side of a trial balance totals \$800 more than the credit side.

Which one of the following errors would fully account for the difference?

- ☐ \$400 paid for plant maintenance has been correctly entered in the cash book and credited to the plant asset account.
- ☐ Credit note issued to a customer of \$400 has been debited to trade receivables.
- ☐ A receipt of \$800 for commission receivable has been omitted from the records.
- ☐ The petty cash balance of \$800 has been omitted from the trial balance.

(2 marks)

17.2 The bookkeeper of Peri made the following mistakes:

Sales returns of \$384 were credited to the purchases returns account.

Purchases returns of \$296 were debited to the sales returns account.

Which one of the following journal entries will correct the errors?

	DEBIT	CREDIT
	\$	\$
<input type="radio"/> Sales returns	768	
Purchases returns		592
Suspense account		176
<input type="radio"/> Sales returns	88	
Purchases returns	88	
Suspense account		176
<input type="radio"/> Sales returns	680	
Purchases returns		680
<input type="radio"/> Suspense account	176	
Sales returns		88
Purchases returns		88

(2 marks)

17.3 White Co's trial balance failed to agree, the totals being:

DEBIT	\$815,602
CREDIT	\$808,420

Which one of the following errors could fully account for the difference?

- ☐ The omission from the trial balance of the balance on the insurance expense account \$7,182 debit.
- ☐ Settlement discounts received from suppliers of \$3,591 were credited in error to the purchases account.
- ☐ No entries made in the records for cash sales totalling \$7,182.
- ☐ The returns outwards total of \$3,591 was included in the trial balance as a debit balance.

(2 marks)

17.4 The debit side of a trial balance totals \$50 more than the credit side. Which one of the following could this be due to?

- ☐ A purchase of goods for \$50 being omitted from the payables control account.
- ☐ A sale of goods for \$50 being omitted from the receivables control account.
- ☐ An invoice of \$25 for electricity being credited to the electricity account.
- ☐ A receipt for \$50 from a customer being omitted from the cash book.

(2 marks)

17.5 Which one of the following is an error of principle?

- ☐ Plant and machinery purchased was credited to a non-current assets account.
- ☐ Plant and machinery purchased was debited to the purchases account.
- ☐ Plant and machinery purchased was debited to the equipment account.
- ☐ Plant and machinery purchased was credited to the equipment account.

(2 marks)

17.6 What is an error of commission?

- ☐ An error where a transaction has not been recorded.
- ☐ An error where one side of a transaction has been recorded in the wrong account, and that account is of a different class to the correct account.
- ☐ An error where one side of a transaction has been recorded in the wrong account, and that account is of the same class as the correct account.
- ☐ An error where the numbers in the posting have been transposed. **(2 marks)**

17.7 Where a transaction is entered into the correct ledger accounts, but the wrong amount is used, what is the error known as?

- ☐ An error of omission
- ☐ An error of original entry
- ☐ An error of commission
- ☐ An error of principle **(2 marks)**

17.8 Daily Co's statement of profit or loss and other comprehensive income for the year ended 31 December 20X4 showed a net profit of \$83,600. It was later found that \$18,000 paid for the purchase of a motor van had been debited to motor expenses account. It is the company's policy to depreciate motor vans at 25% per year, with a full year's charge in the year of acquisition.

What is Daily Co's net profit after adjusting for this error?

\$	
----	--

(2 marks)

17.9 An organisation restores its petty cash balance to \$250 at the end of each month. During October, the total expenditure column in the petty cash book was calculated as being \$210, and the imprest was restored by this amount. The analysis columns posted to the nominal ledger totalled only \$200.

Which one of the following would this error cause?

- ☐ The trial balance being \$10 higher on the debit side
- ☐ The trial balance being \$10 higher on the credit side
- ☐ No imbalance in the trial balance
- ☐ The petty cash balance being \$10 lower than it should be **(2 marks)**

17.10 Net profit was calculated as being \$10,200. It was later discovered that asset expenditure of \$3,000 had been treated as expenditure in the statement of profit or loss, and revenue receipts of \$1,400 had been treated as asset receipts.

What is the net profit after correcting this error?

- ☐ \$5,800
- ☐ \$8,600
- ☐ \$11,800
- ☐ \$14,600 **(2 marks)**

- 17.11 The accountant at Investotech discovered the following errors after calculating the company's profit for 20X3:
- (a) A non-current asset costing \$50,000 has been included in the purchases account.
 - (b) Stationery costing \$10,000 has been included as closing inventory of raw materials, instead of stationery expenses.

What is the effect of these errors on gross profit and net profit?

- ☐ Understatement of gross profit by \$40,000 and understatement of net profit by \$30,000
- ☐ Understatement of both gross profit and net profit by \$40,000
- ☐ Understatement of gross profit by \$60,000 and understatement of net profit by \$50,000
- ☐ Overstatement of both gross profit and net profit by \$60,000 (2 marks)

- 17.12 A purchase return of \$48 has been wrongly posted to the debit of the sales returns account, but has been correctly entered in the supplier's account.

Which of the following statements about the trial balance would be correct?

- ☐ The credit side to be \$48 more than the debit side
- ☐ The debit side to be \$48 more than the credit side
- ☐ The credit side to be \$96 more than the debit side
- ☐ The debit side to be \$96 more than the credit side (2 marks)

- 17.13 Two types of common errors in bookkeeping are errors of **principle** and errors of **transposition**.

Which of the following correctly states whether or not these errors will be revealed by extracting a trial balance?

- | | <i>Errors of principle</i> | <i>Errors of transposition</i> |
|--------------------------|----------------------------|--------------------------------|
| <input type="checkbox"/> | Will be revealed | Will not be revealed |
| <input type="checkbox"/> | Will be revealed | Will be revealed |
| <input type="checkbox"/> | Will not be revealed | Will not be revealed |
| <input type="checkbox"/> | Will not be revealed | Will be revealed |

(2 marks)

- 17.14 The following are balances on the accounts of Luigi, a sole trader, as at the end of the current financial year and after all entries have been processed and the profit for the year has been calculated.

	\$
Non-current assets	85,000
Receivables	7,000
Trade payables	3,000
Bank loan	15,000
Allowance for depreciation, non-current assets	15,000
Inventory	4,000
Accruals	1,000
Prepayments	2,000
Bank overdraft	2,000

What is the balance on Luigi's capital account?

- ☐ \$59,000
☐ \$66,000
☐ \$62,000
☐ \$64,000

(2 marks)

- 17.15 The following balances have been extracted from the nominal ledger accounts of Tanya, but the figure for bank loan is unknown. There are no other accounts in the main ledger.

	\$
Payables	27,000
Capital	66,000
Purchases	160,000
Sales	300,000
Other expenses	110,000
Receivables	33,000
Purchase returns	2,000
Non-current assets	120,000
Cash in bank	18,000
Bank loan	[Unknown]

What is the credit balance on the bank loan account?

\$	
----	--

(2 marks)

- 17.16 Beta Co has total assets of \$650,000 and profit for the year of \$150,000 recorded in the financial statements for the year ended 31 December 20X3. Inventory costing \$50,000, with a resale value of \$75,000, was received into the warehouse on 2 January 20X4 and included in the inventory value that was recorded in the financial statements at 31 December 20X3.

What would the total assets figure in the statement of financial position, and the adjusted profit for the year figure, be after adjusting for this error?

	Total assets (SOF)	Profit for year
<input type="radio"/>	\$700,000	\$200,000
<input type="radio"/>	\$600,000	\$100,000
<input type="radio"/>	\$725,000	\$225,000
<input type="radio"/>	\$600,000	\$75,000

(2 marks)

- 17.17 The electricity account for Jingles Co for the year ended 30 June 20X1 was as follows.

	\$
Opening balance for electricity accrued at 1 July 20X0	300
<i>Payments made during the year</i>	
1 August 20X0 for three months to 31 July 20X0	600
1 November 20X0 for three months to 31 October 20X0	720
1 February 20X1 for three months to 31 January 20X1	900
30 June 20X1 for three months to 30 April 20X1	840

Jingles Co expects the next bill due in September to be for the same amount as the bill received in June.

What are the appropriate amounts for electricity to be included in the financial statements of Jingles Co for the year ended 30 June 20X1?

	Statement of financial position	Statement of profit or loss
<input type="radio"/>	\$560	\$3,320
<input type="radio"/>	\$560	\$3,060
<input type="radio"/>	\$860	\$3,320
<input type="radio"/>	\$860	\$3,060

(2 marks)

- 17.18 Paula Co is reconciling its receivables control account and has discovered the following items:

- (a) An invoice for \$110 had been recorded in the receivables ledger as \$1,100.
 (b) A cash sale of \$100 to a customer had been posted to the receivables ledger.

Where should each of the corrections be recorded?

	Item 1	Item 2
<input type="radio"/>	Control account	Receivables ledger
<input type="radio"/>	Receivables ledger	Control account
<input type="radio"/>	Control account	Control account
<input type="radio"/>	Receivables ledger	Receivables ledger

(2 marks)

(Total = 36 marks)

18 Suspense accounts

31 mins

The following information is relevant for Questions 18.1 and 18.2.

When Q's trial balance failed to agree, a suspense account was opened for the difference. The trial balance totals were:

DEBIT	\$864,390
CREDIT	\$860,930

The company does not have control accounts for its receivables and payables ledgers.

The following errors were found:

- 1 In recording an issue of shares at par, cash received of \$333,000 was credited to the ordinary share capital account as \$330,000.
- 2 Cash \$2,800 paid for plant repairs was correctly accounted for in the cash book but was credited to the plant asset account.
- 3 The petty cash book balance \$500 had been omitted from the trial balance.
- 4 A cheque for \$78,400 paid for the purchase of a motor car was debited to the motor vehicles account as \$87,400.
- 5 A contra between the receivables ledger and the payables ledger for \$1,200 which should have been credited in the receivables ledger and debited in the payables ledger was actually debited in the receivables ledger and credited in the payables ledger.

18.1 Which of these errors will require an entry to the suspense account to correct them?

- ☐ All five items
- ☐ 3 and 5 only
- ☐ 2, 4 and 5 only
- ☐ 1, 2, 3 and 4 only

(2 marks)

18.2 What will the balance on the suspense account be after making the necessary entries to correct the errors affecting the suspense account?

- ☐ \$2,440 DEBIT
- ☐ \$15,560 CREDIT
- ☐ \$13,640 DEBIT
- ☐ \$3,440 DEBIT

(2 marks)

18.3 Cat Co's trial balance totals were:

DEBIT	\$387,642	
CREDIT		\$379,511

A suspense account was opened for the difference.

Which one of the following errors would have the effect of reducing the difference when corrected?

- ☐ The petty cash balance of \$500 has been omitted from the trial balance.
- ☐ \$4,000 received for rent of part of the office has been correctly recorded in the cash book and debited to rent account.
- ☐ \$3,000 paid for repairs to plant has been debited to the plant asset account.
- ☐ An invoice for Mr A Smith for \$400 has been posted to the account of Mrs B Smith in error.

(2 marks)

- 18.4 A trial balance extracted from a sole trader's records failed to agree, and a suspense account was opened for the difference.

Which of the following errors would require an entry in the suspense account in correcting them?

- 1 Sales returns were mistakenly debited to the purchases returns account.
 - 2 Cash received from the sale of a non-current asset was correctly entered in the cash book but was debited to the disposal account.
 - 3 The balance on the rent account was omitted from the trial balance.
 - 4 Goods taken from inventory by the proprietor had been recorded by crediting drawings account and debiting purchases account.
- ☐ All four items
☐ 2 and 3 only
☐ 2 and 4 only
☐ 1 and 3 only

(2 marks)

- 18.5 A suspense account was opened when a trial balance failed to agree. The following errors were later discovered.

- A gas bill of \$420 had been recorded in the gas account as \$240.
- A sales invoice to a customer for \$50 had been credited to accounts receivable.
- Interest received of \$70 had been entered in the bank account only.

What was the original balance on the suspense account?

- ☐ DEBIT \$210
☐ CREDIT \$210
☐ DEBIT \$160
☐ CREDIT \$160

(2 marks)

- 18.6 Dog Co's trial balance failed to agree, the out of balance difference of \$25,000 being posted to a suspense account.

Subsequent investigation revealed the difference was due to one side of an entry to record the purchase of machinery for \$25,000, by cheque, failing to post to the plant and machinery account.

Which of the following journal entries would correct the error?

	<i>DEBIT</i> \$	<i>CREDIT</i> \$
<input type="radio"/> Plant and machinery Bank current account	25,000	25,000
<input type="radio"/> Suspense account Plant and machinery	25,000	25,000
<input type="radio"/> Plant and machinery Suspense account	25,000	25,000
<input type="radio"/> Bank current account Suspense account	25,000	25,000

(2 marks)

18.7 The trial balance of Z failed to agree, the totals being:

DEBIT	\$836,200	
CREDIT		\$819,700

A suspense account was opened for the amount of the difference and the following errors were found and corrected:

- (a) The total of the cash discount received column in the cash book had not been posted to the discount received account. The figure for discounts received was \$5,100.
- (b) A cheque for \$19,000 received from a customer was correctly entered in the cash book but was posted to the control account as \$9,100.

What will the remaining balance be on the suspense **after** the correction of these errors?

\$ credit

(2 marks)

18.8 The trial balance of C, a limited liability company, did not agree, and a suspense account was opened for the difference. Checking in the bookkeeping system revealed a number of errors.

Which **TWO** of the following errors would require an entry to the suspense account as part of the process of correcting them?

- ☐ \$4,600 paid for motor van repairs was correctly treated in the cash book but was credited to motor vehicles asset account.
- ☐ \$360 received from B, a customer, was credited in error to the account of BB.
- ☐ \$9,500 paid for rent was debited to the rent account as \$5,900.
- ☐ Sales returns had been debited in error to the purchases returns account.
- ☐ No entries have been made to record a cash sale of \$100.

(2 marks)

18.9 The suspense account shows a debit balance of \$100. What could this balance be due to?

- ☐ Entering \$50 received from A Turner on the debit side of A Turner's account
- ☐ Entering \$50 received from A Turner on the credit side of A Turner's account
- ☐ Undercasting the sales day book by \$100
- ☐ Undercasting the purchases account by \$100

(2 marks)

18.10 A suspense account shows a credit balance of \$130. Which of the following could be due to?

- ☐ Omitting a sale of \$130 from the sales ledger
- ☐ Recording a purchase of \$130 twice in the purchases account
- ☐ Failing to write off a bad debt of \$130
- ☐ Recording an electricity bill paid of \$65 by debiting the bank account and crediting the electricity account

(2 marks)

- 18.11 Chocolate Co has a suspense account balance in its trial balance of \$560 credit.

It was discovered that discounts allowed of \$700 have been debited to, instead of credited to, the receivables control account.

What is the remaining balance on the suspense account after this error has been adjusted for?

- ☐ \$140 DEBIT
- ☐ \$840 DEBIT
- ☐ \$1,260 CREDIT
- ☐ \$1,960 CREDIT

(2 marks)

- 18.12 M Co's trial balance does not agree and therefore a suspense account with a debit balance of \$3,000 has been opened.

Which of the following errors could explain this difference?

- ☐ A receipt of \$3,000 from a credit customer has been credited to the payables control account instead of the receivables control account.
- ☐ The interest received account of \$1,500 has been omitted from the trial balance.
- ☐ Equipment repairs of \$3,000 have been incorrectly capitalised as part of plant and equipment.
- ☐ A \$1,500 bank balance has been shown in the trial balance as an overdraft of \$1,500.

(2 marks)

- 18.13 On 1 October 20X6, N Co had 400,000 25c ordinary shares in issue. On 1 January 20X7 there was a rights issue of one for five at \$1.50. The entry in the share premium account was omitted in error and as a result the trial balance at 30 September 20X7 did not agree.

What balance would have been entered in the suspense account when it was opened?

- ☐ \$400,000 DEBIT
- ☐ \$400,000 CREDIT
- ☐ \$100,000 DEBIT
- ☐ \$100,000 CREDIT

(2 marks)

(Total = 26 marks)

Do you know? – Preparing basic financial statements

Check that you can fill in the blanks in the statements below before you attempt any questions. If in doubt, you should go back to your BPP Workbook and revise first.

- There are some important differences between the accounts of a **l**..... **l**..... **c**..... and those of sole traders or partnerships.
- liability means that the maximum amount that an owner stands to lose, in the event that the company becomes insolvent and cannot pay off its debts, is his share of the capital in the business.
- capital and are 'owned' by the shareholders. They are known collectively as 'shareholders' equity'.
- A company can increase its share capital by means of a issue or a issue.
- are included in a set of financial statements to give users extra information.
- IFRS 15 is concerned with the recognition of
- Events after the reporting date but before the date the financial statements are approved that provide further **e**..... of conditions that existed at the reporting date should be for in the financial statements.
- Events which do not affect the situation at the reporting date should not be for, but should be in the financial statements.
- The approach to incomplete records questions is to build up the information given so as to complete the necessary entry.
-- is the profit as a percentage of cost.
- **G**..... **p**..... is the profit as a percentage of sales.
- Where no trading records have been kept, profit can be derived from opening and closing net assets by use of the **b**..... **e**.....
- The business equation is Profit = increase in – capital introduced +
- Statements of **c**..... **f**..... are a useful addition to the financial statements of companies because it is recognised that accounting profit is not the only indicator of a company's performance.
- activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.
- activities are the acquisition and disposal of non-current assets and other investments not included in cash equivalents.
- activities are activities that result in changes in the size and composition of the equity capital and borrowings of the entity.

Do you know? – Preparing basic financial statements

Could you fill in the blanks? The answers are in bold. Use this page for revision purposes as you approach the exam.

- There are some important differences between the accounts of a **limited liability company** and those of sole traders or partnerships.
- **Limited** liability means that the maximum amount that an owner stands to lose, in the event that the company becomes insolvent and cannot pay off its debts, is his share of the capital in the business.
- **Share** capital and **equity** are 'owned' by the shareholders. They are known collectively as 'shareholders' equity'.
- A company can increase its share capital by means of a **bonus** issue or a **rights** issue.
- **Notes** are included in a set of financial statements to give users extra information.
- IFRS 15 is concerned with the recognition of **revenue from contracts with customers**.
- Events after the reporting date but before the date the financial statements are approved that provide further **evidence** of conditions that existed at the reporting date should be **adjusted** for in the financial statements.
- Events which do not affect the situation at the reporting date should not be **adjusted** for, but should be **disclosed** in the financial statements.
- The approach to incomplete records questions is to build up the information given so as to complete the necessary **double** entry.
- **Mark-up** is the profit as a percentage of cost.
- **Gross profit margin** is the profit as a percentage of sales.
- Where no trading records have been kept, profit can be derived from opening and closing net assets by use of the **business equation**.
- The business equation is Profit = increase in **net assets** – capital introduced + **drawings**
- Statements of **cash flows** are a useful addition to the financial statements of companies because it is recognised that accounting profit is not the only indicator of a company's performance.
- **Operating** activities are the principal revenue-producing activities of the enterprise and other activities that are not investing or financing activities.
- **Investing** activities are the acquisition and disposal of non-current assets and other investments not included in cash equivalents.
- **Financing** activities are activities that result in changes in the size and composition of the equity capital and borrowings of the entity.

19 15 mark questions: preparing basic financial statements 126 mins

19.1 Shuswap

Exam focus point. This question provides excellent practise of the knowledge and skills required to tackle the longer questions that appear in Section B of the exam.

The draft statement of financial position shown below has been prepared for Shuswap, a limited liability company, as at 31 December 20X4:

	Cost \$'000	Accumulated depreciation \$'000	Carrying amount \$'000
Assets			
<i>Non-current assets</i>			
Land and buildings	9,000	1,000	8,000
Plant and equipment	21,000	9,000	12,000
	<u>30,000</u>	<u>10,000</u>	<u>20,000</u>
<i>Current assets</i>			
Inventories			3,000
Receivables			2,600
Cash at bank			1,900
Total assets			<u>27,500</u>
Equity and liabilities			
<i>Equity</i>			
Issued share capital (ordinary shares of 50c each)			6,000
Retained earnings			12,400
<i>Non-current liabilities</i>			
Loan notes (redeemable 20Y0)			2,000
<i>Current liabilities</i>			
Trade payables			2,100
			<u>22,500</u>
Suspense account			5,000
			<u>27,500</u>

Task 1

Some inventory items included in the draft statement of financial position at cost \$500,000 were sold after the reporting date for \$400,000, with selling expenses of \$40,000.

Which of the following statements is correct?

- ☐ Inventory should be debited with \$140,000 at 31.12.20X4.
- ☐ Inventory should be credited with \$140,000 at 31.12.20X4.
- ☐ Cash should be credited with \$140,000 at 31.12.20X4.
- ☐ No adjustment should be made because the inventory was sold after the year end.

(2 marks)

Task 2

The suspense account is made up of two items:

- (a) The proceeds of issue of 4,000,000 50c shares at \$1.10 per share, credited to the suspense account from the cash book.
- (b) The balance of the account is the proceeds of sale of some plant on 1 January 20X4 with a carrying amount at the date of sale of \$700,000 and which had originally cost \$1,400,000. No other accounting entries have yet been made for the disposal

apart from the cash book entry for the receipt of the proceeds. Depreciation on plant has been charged at 25% (straight line basis) in preparing the draft statement of financial position without allowing for the sale. The depreciation for the year relating to the plant sold should be adjusted for in full.

What is the profit or loss on disposal of the plant?

\$ Profit/Loss

What is the amount of the depreciation adjustment that should be made for the year to 31.12.20X4?

\$ (3 marks)

Task 3

A year end journal to clear the suspense account is given below.

Prepare the double entry by selecting the correct option for each row. (Use the information given under Task 2 to help you.)

	DEBIT	CREDIT	Neither DEBIT nor CREDIT
Issued share capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Share premium	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cash	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Plant and equipment – cost	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Plant and equipment – disposal account	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Suspense account	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

After the suspense account has been cleared, what will be the balances on these accounts?

Share capital \$

Share premium \$ (7 marks)

Task 4

Irrecoverable debts of \$200,000 are to be written off at 31.12.20X4

Will the following adjustments be debited or credited to retained earnings?

	DEBIT	CREDIT	Neither DEBIT nor CREDIT
Irrecoverable debts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Depreciation adjustment (Task 2)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Inventory adjustment (Task 1)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

(3 marks)

19.2 Malright

You are presented with the following trial balance of Malright, a limited liability company, at 31 October 20X7.

Task 1

Do each of these items belong on the statement of financial position (SOFP) as at 31 October 20X7?

	DEBIT \$'000	CREDIT \$'000	On SOFP	Not on SOFP
Buildings at cost	740		<input type="radio"/>	<input type="radio"/>
Buildings, accumulated depreciation, 1 November 20X6		60	<input type="radio"/>	<input type="radio"/>
Plant at cost	220		<input type="radio"/>	<input type="radio"/>
Plant, accumulated depreciation, 1 November 20X6		110	<input type="radio"/>	<input type="radio"/>
Bank balance		70	<input type="radio"/>	<input type="radio"/>
Revenue		1,800	<input type="radio"/>	<input type="radio"/>
Purchases	1,140		<input type="radio"/>	<input type="radio"/>
Inventory at 1 November 20X6	160		<input type="radio"/>	<input type="radio"/>
Cash	20		<input type="radio"/>	<input type="radio"/>
Trade payables		250	<input type="radio"/>	<input type="radio"/>
Trade receivables	320		<input type="radio"/>	<input type="radio"/>
Administrative expenses	325		<input type="radio"/>	<input type="radio"/>
Allowance for receivables, at 1 November 20X6		10	<input type="radio"/>	<input type="radio"/>
Retained earnings at 1 November 20X6		130	<input type="radio"/>	<input type="radio"/>
\$1 ordinary shares		415	<input type="radio"/>	<input type="radio"/>
Share premium account		80	<input type="radio"/>	<input type="radio"/>
	<u>2,925</u>	<u>2,925</u>		

(4 marks)**Task 2**

The allowance for receivables is to be increased to 5% of trade receivables. The allowance for receivables is treated as an administrative expense.

The year-end journal for allowance for receivables is given below. Prepare the double entry by selecting the correct option for each row.

	DEBIT	CREDIT	Neither DEBIT nor CREDIT
Trade receivables	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Administrative expenses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Allowance for receivables	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Revenue	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Complete the following:

The amount included in the statement of profit or loss after the allowance is increased to 5% of trade receivables is \$

(3 marks)**Task 3**

Plant is depreciated at 20% per year using the reducing balance method and buildings are depreciated at 5% per year on their original cost. Depreciation is treated as a cost of sales expense.

The year-end journal for buildings and plant depreciation is given below. Using the information above, prepare the double entry by selecting the correct option for each row.

	DEBIT	CREDIT	Neither DEBIT nor CREDIT
Administrative expenses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cost of sales	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Buildings cost	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Plant cost	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Buildings accumulated depreciation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Plant accumulated depreciation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Calculate the depreciation charge for the below for the year ended 31 October 20X7. Use the information above to help you.

Buildings \$

Plant \$

(5 marks)

Task 4

Closing inventory is \$75,000.

Ignoring the depreciation charge calculated earlier, what is the cost of sales for the year?

\$

(1.5 marks)

Task 5

An invoice of \$15,000 for energy costs relating to the quarter ended 30 November 20X7 was received on 2 December 20X7. Energy costs are included in administrative expenses.

Complete the following statements:

The double entry to post the year end adjustments for energy costs is:

	DEBIT	CREDIT
Accrual	<input type="radio"/>	<input type="radio"/>
Administrative expenses	<input type="radio"/>	<input type="radio"/>

The amount to be posted within the year end adjustment double entry above is

\$

(1.5 marks)

19.3 Tonson

The information below has been extracted from the books of Tonson, a limited liability company, as at 31 October 20X6.

Task 1

Do each of these items belong in the statement of profit or loss (P/L) as at 31 October 20X6?

	DEBIT \$'000	CREDIT \$'000	P/L	Not P/L
Inventory at 1 November 20X5	350		<input type="radio"/>	<input type="radio"/>
Administrative expenses	1,106		<input type="radio"/>	<input type="radio"/>
Share premium account		200	<input type="radio"/>	<input type="radio"/>
Retained earnings at 1 November 20X5		315	<input type="radio"/>	<input type="radio"/>
Allowance for receivables at 1 November 20X5		40	<input type="radio"/>	<input type="radio"/>
Sales revenue		5,780	<input type="radio"/>	<input type="radio"/>
Bank		79	<input type="radio"/>	<input type="radio"/>
Returns inward	95		<input type="radio"/>	<input type="radio"/>
Trade payables		340	<input type="radio"/>	<input type="radio"/>
Loan note interest	33		<input type="radio"/>	<input type="radio"/>
Trade receivables	900		<input type="radio"/>	<input type="radio"/>
Purchases	3,570		<input type="radio"/>	<input type="radio"/>
7% loan notes		470	<input type="radio"/>	<input type="radio"/>
Irrecoverable debts	150		<input type="radio"/>	<input type="radio"/>
\$1 ordinary shares		1,800	<input type="radio"/>	<input type="radio"/>
Accumulated depreciation at 1 November 20X5				
Buildings		360	<input type="radio"/>	<input type="radio"/>
Motor Vehicles		80	<input type="radio"/>	<input type="radio"/>
Furniture and equipment		420	<input type="radio"/>	<input type="radio"/>
Land at cost	740		<input type="radio"/>	<input type="radio"/>
Buildings at cost	1,500		<input type="radio"/>	<input type="radio"/>
Motor vehicles at cost	240		<input type="radio"/>	<input type="radio"/>
Furniture and equipment at cost	1,200		<input type="radio"/>	<input type="radio"/>
	<u>9,884</u>	<u>9,884</u>		

(5 marks)**Task 2**

Buildings are depreciated at 5% of cost. At 31 October 20X6 the buildings were professionally valued at \$1,800,000 and the directors wish this valuation to be incorporated into the financial statements.

Depreciation is to be charged as follows:

- (a) Motor vehicles at 20% of carrying amount
- (b) Furniture and equipment at 20% of cost

What will be the carrying amount of the following assets in the financial statements at 31 October 20X6?

Land \$

Buildings \$

Motor vehicles \$

Furniture and equipment \$

(4 marks)

Task 3

Inventory at 31 October 20X6 was valued at \$275,000 based on its original cost. However, \$45,000 of this inventory has been in the warehouse for over two years and the directors have agreed to sell it in November 20X6 for a cash price of \$20,000.

The administrative expenses include \$5,000 which relates to November 20X6.

The allowance for receivables is to be increased to the equivalent of 5% of trade receivables.

There are wages and salaries outstanding of \$40,000 for the year ended 31 October 20X6.

Will the following items be debited or credited to profit for the year?

	DEBIT	CREDIT
Inventory valuation adjustment	<input type="radio"/>	<input type="radio"/>
Administrative expenses relating to November 20X6	<input type="radio"/>	<input type="radio"/>
Increase in allowance for receivables	<input type="radio"/>	<input type="radio"/>
Outstanding wages and salaries	<input type="radio"/>	<input type="radio"/>

(3 marks)

Task 4

During October 20X6 a bonus issue of one for ten shares was made to ordinary shareholders. This has not been entered into the books. The share premium account was used for this purpose.

Complete this sentence:

The bonus issue will (increase / decrease / not affect) Tonson's cash balance.

What will be the balances on these accounts following the bonus issue?

Share capital \$

Share premium \$

(3 marks)

19.4 Emma

Set out below are the financial statements of Emma, a limited liability company.

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 20X2

	\$'000
Sales revenue	2,553
Cost of sales	1,814
Gross profit	739
Distribution costs	125
Administrative expenses	204
Finance costs	60
Profit before tax	350
Income tax expense	240
Profit for the year	110

STATEMENTS OF FINANCIAL POSITION AS AT 31 DECEMBER

	20X2 \$'000	20X1 \$'000
<i>Non-current assets</i>		
Tangible assets	380	305
Intangible assets	250	200
Investments	–	25
	<u>630</u>	<u>530</u>
<i>Current assets</i>		
Inventories	150	102
Receivables	390	315
Cash in hand	52	1
	<u>592</u>	<u>418</u>
	<u>1,222</u>	<u>948</u>
<i>Equity and liabilities</i>		
Share capital (\$1 ordinary shares)	200	150
Share premium account	160	150
Revaluation surplus	100	91
Retained earnings	160	100
	<u>620</u>	<u>491</u>
<i>Non-current liabilities</i>		
Long-term loan	100	–
<i>Current liabilities</i>		
Trade payables	127	119
Bank overdraft	85	98
Taxation	290	240
	<u>502</u>	<u>457</u>
	<u>1,222</u>	<u>948</u>

Additional information

- (a) The proceeds of the sale of non-current asset investments amounted to \$30,000.
- (b) Fixtures and fittings, with an original cost of \$85,000 and a carrying amount of \$45,000, were sold for \$32,000 during the year.
- (c) The following information relates to property, plant and equipment.

	31.12.20X2 \$'000	31.12.20X1 \$'000
Cost/valuation	720	595
Accumulated depreciation	<u>340</u>	<u>290</u>
Carrying amount	<u>380</u>	<u>305</u>

Some items of PPE were revalued during the year.

- (d) 50,000 \$1 ordinary shares were issued during the year at a premium of 20c per share.

Complete the following sections of the statement of cash flows for the year ended 31 December 20X2 for Emma.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 20X2 (extracts)

	\$'000	Add	Subtract
<i>Cash flows from operating activities</i>			
Net profit before tax/Net profit after tax (delete as applicable)	<input type="text"/>		
Adjustments for:			
Depreciation	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Loss on sale for non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Profit on sale of non-current asset investments	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in inventories	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in receivables	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in payables	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Income taxes paid	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Interest paid	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
<i>Cash flows from investing activities</i>			
Purchase of intangible non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Purchase of tangible non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Receipts from sale of non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
<i>Cash flows from financing activities</i>			
Proceeds from issue of share capital	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Long-term loan	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
			(15 marks)

19.5 Sioux

The following information is available for Sioux, a limited liability company:

STATEMENTS OF FINANCIAL POSITION

	31 December			
	20X4		20X3	
	\$'000	\$'000	\$'000	\$'000
<i>Non-current assets</i>				
Cost or valuation		11,000		8,000
Accumulated depreciation		(5,600)		(4,800)
Carrying amount		5,400		3,200
<i>Current assets</i>				
Inventories	3,400		3,800	
Receivables	3,800		2,900	
Cash at bank	400	7,600	100	6,800
		<u>13,000</u>		<u>10,000</u>
<i>Equity and liabilities</i>				
Capital and equity				
Ordinary share capital	1,000		1,000	
Revaluation surplus	1,500		1,000	
Retained earnings	<u>3,100</u>	5,600	<u>2,200</u>	4,200

	31 December		
	20X4		20X3
	\$'000	\$'000	\$'000
<i>Non-current liabilities</i>			
10% Loan notes		3,000	2,000
<i>Current liabilities</i>			
Trade payables	3,700		3,200
Income tax	<u>700</u>	<u>4,400</u>	<u>600</u>
		<u>13,000</u>	<u>10,000</u>

SUMMARISED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 20X4

	\$'000
Profit from operations	2,650
Finance cost (loan note interest)	<u>(300)</u>
	2,350
Income tax expense	<u>(700)</u>
Net profit for the year	<u>1,650</u>

Notes

- During the year non-current assets which had cost \$800,000, with a carrying amount of \$350,000, were sold for \$500,000.
- The revaluation surplus arose from the revaluation of some land that was not being depreciated.
- The 20X3 income tax liability was settled at the amount provided for at 31 December 20X3.
- The additional loan notes were issued on 1 January 20X4. Interest was paid on 30 June 20X4 and 31 December 20X4.
- Dividends paid during the year amounted to \$750,000.

Complete the following statement of cash flows for the year ended 31 December 20X2 for Sioux.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 20X4

	\$'000	Add	Subtract
<i>Cash flows from operating activities</i>			
Net profit before tax/Net profit after tax (delete as applicable)	<input type="text"/>		
Adjustments for:			
Depreciation	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Profit on disposal of non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in inventories	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in receivables	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in payables	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Income taxes paid	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
<i>Cash flows from investing activities</i>			
Purchase of tangible non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Receipts from sale of non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>

	\$'000	Add	Subtract
<i>Cash flows from financing activities</i>			
Issue of loan notes	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Dividends paid	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Net increase/decrease in cash (delete as applicable)	<input type="text"/>		
Cash balance at 1 January 20X4	<input type="text"/>		
Cash balance at 31 December 20X4	<input type="text"/>		

(15 marks)

19.6 Snowdrop

The following information has been extracted from the draft financial statements of Snowdrop, a limited liability company.

SNOWDROP

STATEMENTS OF FINANCIAL POSITION AS AT 31 MAY

	20X5		20X4	
	\$'000	\$'000	\$'000	\$'000
<i>Non-current assets</i>		4,600		2,700
<i>Current assets</i>				
Inventory	580		500	
Trade receivables	360		230	
Bank	<u>0</u>		<u>170</u>	
		940		900
<i>Total assets</i>		<u>5,540</u>		<u>3,600</u>
<i>Equity and liabilities</i>				
<i>Equity</i>				
Ordinary share capital		3,500		2,370
Share premium		300		150
Retained earnings		<u>1,052</u>		<u>470</u>
		4,852		2,990
<i>Non-current liabilities</i>				
10% Loan note (redeemable 31 May 20X5)		0		100
<i>Current liabilities</i>				
Trade payables	450		365	
Taxation	180		145	
Bank overdraft	<u>58</u>		<u>0</u>	
		688		510
		<u>5,540</u>		<u>3,600</u>

Additional information

- (a) The statement of profit or loss for the year ended 31 May 20X5 shows the following.

	\$'000
Operating profit	1,042
Interest payable	<u>(10)</u>
Profit before taxation	1,032
Taxation	<u>(180)</u>
Profit for financial year	<u>852</u>

- (b) During the year dividends paid were \$270,000.
- (c) Profit before taxation had been arrived at after charging \$700,000 for depreciation on non-current assets.
- (d) During the year non-current assets with a carrying amount of \$200,000 were sold for \$180,000.

Complete the following statement of cash flows for the year ended 31 May 20X5 for Snowdrop.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MAY 20X5

	\$'000	Add	Subtract
<i>Cash flows from operating activities</i>			
Net profit before tax/Net profit after tax (delete as applicable)	<input type="text"/>		
Adjustments for:			
Depreciation	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Loss on disposal of non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in inventories	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in receivables	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in payables	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Income taxes paid	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Dividends paid	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
<i>Cash flows from investing activities</i>			
Purchase of non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Receipts from sale of non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
<i>Cash flows from financing activities</i>			
Issue of share capital	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Repayment of loan	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Net increase/decrease in cash (delete as applicable)	<input type="text"/>		
Cash balance at 31 May 20X4	<input type="text"/>		
Cash balance at 31 May 20X5	<input type="text"/>		

(15 marks)

19.7 Geofrost

Exam focus point. The statement of cash flows questions in this set have required use of the indirect method. Ensure you are also familiar with the direct method, as explained in Chapter 22 of your Workbook and tested in section 24 of this Practice and Revision Kit.

Geofrost is preparing its statement of cash flows for the year ended 31 October 20X7. You have been presented with the following information.

GEOFROST

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 OCTOBER 20X7

	\$'000
Profit before tax	15,000
Taxation	(4,350)
Profit for the year	<u>10,650</u>

STATEMENTS OF FINANCIAL POSITION AS AT 31 OCTOBER

	20X7		20X6	
	\$'000	\$'000	\$'000	\$'000
<i>Non-current assets</i>		44,282		26,574
<i>Current assets</i>				
Inventory	3,560		9,635	
Trade receivables	6,405		4,542	
Cash	<u>2,045</u>		<u>1,063</u>	
		12,010		15,240
<i>Total assets</i>		<u>56,292</u>		<u>41,814</u>
<i>Equity and liabilities</i>				
<i>Equity</i>				
Ordinary share capital		19,365		17,496
Retained earnings		<u>17,115</u>		<u>6,465</u>
		36,480		23,961
<i>Non-current liabilities</i>				
9% loan notes		8,000		10,300
<i>Current liabilities</i>				
Bank overdraft	1,230		429	
Trade payables	7,562		4,364	
Taxation	<u>3,020</u>		<u>2,760</u>	
		11,812		7,553
<i>Total equity and liabilities</i>		<u>56,292</u>		<u>41,814</u>

Additional information

- (a) Depreciation expense for the year was \$4,658,000.
- (b) Assets with a carrying amount of \$1,974,000 were disposed of at a profit of \$720,000.

Complete the following statement of cash flows for the year ended 31 October 20X7 for Geofrost.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 OCTOBER 20X7

	\$'000	Add	Subtract
<i>Cash flows from operating activities</i>			
Net profit before tax/Net profit after tax (delete as applicable)	<input type="text"/>		
Adjustments for:			
Depreciation	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Profit on disposal of non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in inventories	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in receivables	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Movement in payables	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Income taxes paid	<input type="text"/>	<input type="radio"/>	<input type="radio"/>

	\$'000	Add	Subtract
<i>Cash flows from investing activities</i>			
Purchase of tangible non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Receipts from sale of non-current assets	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
<i>Cash flows from financing activities</i>			
Issue of share capital	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Repayment of loan	<input type="text"/>	<input type="radio"/>	<input type="radio"/>
Net increase/decrease in cash (delete as applicable)	<input type="text"/>		
Cash balance at 31 October 20X6	<input type="text"/>		
Cash balance at 31 October 20X7	<input type="text"/>		

(15 marks)

(Total = 105 marks)

20 Incomplete records**38 mins**

20.1 A business has compiled the following information for the year ended 31 October 20X2:

	\$
Opening inventory	386,200
Purchases	989,000
Closing inventory	422,700

The gross profit as a percentage of sales is always 40%

Based on these figures, what is the sales revenue for the year?

- ☐ \$952,500
- ☐ \$1,333,500
- ☐ \$1,587,500
- ☐ \$1,524,000

(2 marks)

20.2 Which of the following calculations could produce an acceptable figure for a trader's net profit for a period if no accounting records had been kept?

- ☐ Closing net assets plus drawings minus capital introduced minus opening net assets
- ☐ Closing net assets minus drawings plus capital introduced minus opening net assets
- ☐ Closing net assets minus drawings minus capital introduced minus opening net assets
- ☐ Closing net assets plus drawings plus capital introduced minus opening net assets

(2 marks)

- 20.3 A sole trader fixes his prices to achieve a gross profit percentage on sales revenue of 40%. All his sales are for cash. He suspect that one of his sales assistants is stealing cash from sales revenue.

His trading account for the month of June 20X3 is as follows:

	\$
Recorded sales revenue	181,600
Cost of sales	114,000
Gross profit	67,600

Assuming that the cost of sales figure is correct, how much cash could the sales assistant have taken?

- ☐ \$5,040
☐ \$8,400
☐ \$22,000
☐ It is not possible to calculate a figure from this information
- (2 marks)

The following information is relevant for Questions 20.4 and 20.5.

A is a sole trader who does not keep full accounting records. The following details relate to her transactions with credit customers and suppliers for the year ended 30 November 20X3.

	\$
Trade receivables, 1 December 20X2	130,000
Trade payables, 1 December 20X2	60,000
Cash received from customers	687,800
Cash paid to suppliers	302,800
Discounts received	2,960
Irrecoverable debts	4,160
Amount due from a customer who is also a supplier offset against an amount due for goods supplied by him	2,000
Trade receivables, 30 November 20X3	181,000
Trade payables, 30 November 20X3	84,000

- 20.4 Based on the above information, what should be the figure for sales revenue in A's statement of profit or loss for the year ended 30 November 20X3?

\$	
----	--

(2 marks)

- 20.5 Based on the above information, what figure should appear in A's statement of profit or loss for the year ended 30 November 20X3 for purchases?

- ☐ \$283,760
☐ \$325,840
☐ \$329,760
☐ \$331,760
- (2 marks)

- 20.6 A sole trader fixes her prices by adding 50% to the cost of all goods purchased. On 31 October 20X3 a fire destroyed a considerable part of the inventory and all inventory records.

Her trading account for the year ended 31 October 20X3 included the following figures:

	\$	\$
Sales		281,250
Opening inventory at cost	183,600	
Purchases	<u>249,200</u>	
	432,800	
Closing inventory at cost	<u>204,600</u>	
		<u>228,200</u>
Gross profit		<u>53,050</u>

Using this information, what inventory loss has occurred?

- ☐ \$61,050
- ☐ \$87,575
- ☐ \$40,700
- ☐ \$110,850

(2 marks)

- 20.7 A fire on 30 September 20X2 destroyed some of a company's inventory and its inventory records.

The following information is available:

	\$
Inventory 1 September 20X2	318,000
Sales for September 20X2	612,000
Purchases for September 20X2	412,000
Inventory in good condition at 30 September 20X2	214,000

Standard gross profit percentage on sales is 25%

Based on this information, what is the value of inventory lost?

- ☐ \$96,000
- ☐ \$271,000
- ☐ \$26,400
- ☐ \$57,000

(2 marks)

- 20.8 A business's bank balance increased by \$750,000 during its last financial year. During the same period it issued shares of \$1 million and repaid a loan note of \$750,000. It purchased non-current assets for \$200,000 and charged depreciation of \$100,000. Working capital (other than the bank balance) increased by \$575,000.

What was its profit for the year?

- ☐ \$1,175,000
- ☐ \$1,275,000
- ☐ \$1,325,000
- ☐ \$1,375,000

(2 marks)

- 20.9 A sole trader's business made a profit of \$32,500 during the year ended 31 March 20X8. This figure was after deducting \$100 per week wages for himself. In addition, he put his home telephone bill through the business books, amounting to \$400 plus sales tax at 17.5%. He is registered for sales tax and therefore has charged only the net amount to his statement of profit or loss and other comprehensive income.

His capital at 1 April 20X7 was \$6,500. What was his capital at 31 March 20X8?

- ☐ \$33,730
☐ \$33,800
☐ \$38,930
☐ \$39,000

(2 marks)

- 20.10 Senji does not keep proper accounting records, and it is necessary to calculate her total purchases for the year ended 31 January 20X3 from the following information:

	\$
Trade payables: 31 January 20X2	130,400
31 January 20X3	171,250
Payment to suppliers	888,400
Cost of goods taken from inventory by Senji for her personal use	1,000
Refunds received from suppliers	2,400
Discounts received	11,200

What should be the figure for purchases, in Senji's financial statements for the year ended 31 January 20X3?

\$	
----	--

(2 marks)

- 20.11 Aluki fixes prices to make a standard gross profit percentage on sales of 20%.

The following information for the year ended 31 January 20X3 is available to compute her sales total for the year.

	\$
Inventory: 1 February 20X2	243,000
31 January 20X3	261,700
Purchases	595,400
Purchases returns	41,200

What is the sales figure for the year ended 31 January 20X3?

- ☐ \$669,375
☐ \$702,600
☐ \$772,375
☐ \$741,480

(2 marks)

- 20.12 Alpha is a sole trader who does not keep proper accounting records.

Alpha's first year of trading was 20X4. From reviewing Alpha's bank statements and the incomplete records relating to cash maintained, the following summary has been compiled.

Bank and cash summary, Alpha, 20X4

	\$
Cash received from credit customers and paid into the bank	381,600
Expenses paid out of cash received from credit customers before banking	6,800
Cash sales	112,900

Other information, Alpha, 20X4

Irrecoverable debts written off	7,200
Closing balance of Trade receivables	0

Which of the following correctly represents Alpha's sales figure for 20X4?

- ☐ \$508,500
☐ \$112,900
☐ \$381,600
☐ \$494,100

(2 marks)

- 20.13 A sole trader who does not keep full accounting records wishes to calculate her sales revenue for the year.

The information available is:

(a) Opening inventory	\$17,000
(b) Closing inventory	\$24,000
(c) Purchases	\$91,000
(d) Standard gross profit percentage on sales revenue	40%

Which of the following is the sales figure for the year calculated from these figures?

- ☐ \$117,600
☐ \$108,000
☐ \$210,000
☐ \$140,000

(2 marks)

- 20.14 On 31 December 20X0 the inventory of Vole Co was completely destroyed by fire. The following information is available:

- (a) Inventory at 1 December 20X0 at cost \$28,400
 (b) Purchases for December 20X0 \$49,600
 (c) Sales for December 20X0 \$64,800
 (d) Standard gross profit percentage on sales revenue 30%

Based on this information, which of the following is the amount of inventory destroyed?

- ☐ \$45,360
☐ \$32,640
☐ \$40,971
☐ \$19,440

(2 marks)

- 20.15 The following information is available for the year ended 31 December 20X4 for a trader who does not keep proper accounting records:

	\$
Inventories at 1 January 20X4	38,000
Inventories at 31 December 20X4	45,000
Purchases	637,000

Gross profit percentage on sales = 30%

Based on this information, what was the trader's sales figure for the year?

- ☐ \$900,000
- ☐ \$819,000
- ☐ \$920,000
- ☐ \$837,200

(2 marks)

- 20.16 Wanda keeps no accounting records. The following information is available about her position and transactions for the year ended 31 December 20X4:

	\$
Net assets at 1 January 20X4	210,000
Drawings during 20X4	48,000
Capital introduced during 20X4	100,000
Net assets at 31 December 20X4	400,000

Based on this information, what was Wanda's profit for 20X4?

- ☐ \$42,000
- ☐ \$242,000
- ☐ \$138,000
- ☐ \$338,000

(2 marks)

(Total = 32 marks)

21 Company financial statements

24 mins

- 21.1 Which of the following items may appear as current liabilities in a company's statement of financial position?

- 1 Revaluation surplus
- 2 Loan due for repayment within one year
- 3 Taxation
- 4 Preference dividend payable on redeemable preference shares

- ☐ 1, 2 and 3
- ☐ 1, 2 and 4
- ☐ 1, 3 and 4
- ☐ 2, 3 and 4

(2 marks)

21.2 Which **TWO** of the following might appear as an item in a company's statement of changes in equity?

- ☐ Profit on disposal of properties
- ☐ Surplus on revaluation of properties
- ☐ Equity dividends proposed after the reporting date
- ☐ Issue of share capital

(2 marks)

21.3 At 31 December 20X2 the following matters require inclusion in a company's financial statements:

- (a) On 1 January 20X2 the company made a loan of \$12,000 to an employee, repayable on 30 April 20X3, charging interest at 2% per year. On the due date she repaid the loan and paid the whole of the interest due on the loan to that date.
- (b) The company has paid insurance \$9,000 in 20X2, covering the year ending 31 August 20X3.
- (c) In January 20X3 the company received rent from a tenant \$4,000 covering the six months to 31 December 20X2.

For these items, what total figures should be included in the company's statement of financial position at 31 December 20X2?

	<i>Receivables and prepayments</i>	<i>Payables and accruals</i>	
	\$	\$	
<input type="radio"/>	22,000	240	
<input type="radio"/>	22,240	NIL	
<input type="radio"/>	10,240	NIL	
<input type="radio"/>	16,240	6,000	(2 marks)

21.4 Which of the following items are required to be disclosed by a limited liability company, either on the face of their main financial statements or in the notes, according to International Financial Reporting Standards?

- 1 Share capital
- 2 Dividends proposed
- 3 Depreciation and amortisation
- ☐ 1 and 2 only
- ☐ 1 and 3 only
- ☐ 2 and 3 only
- ☐ 1, 2, and 3

(2 marks)

- 21.5 Identify, by indicating the relevant box in the table below, whether each of the following statements about the financial statements of a limited company is true or false, according to International Financial Reporting Standards.

In preparing a statement of cash flows, either the direct or the indirect method may be used. Both lead to the same figure for net cash from operating activities.	True	False
Loan notes can be classified as current or non-current liabilities.	True	False
Financial statements must disclose a company's total expense for depreciation, if material.	True	False
A company must disclose, by note, details of all adjusting events allowed for in the financial statements.	True	False

(2 marks)

- 21.6 Which **TWO** of the following could appear as separate items in the statement of changes in equity required by IAS 1 *Presentation of Financial Statements* as part of a company's financial statements?

- ☐ Dividends on equity shares paid during the period
- ☐ Loss on sale of investments
- ☐ Proceeds of an issue of ordinary shares
- ☐ Dividends proposed after the year end

(2 marks)

- 21.7 Which one of the following items does **NOT** appear under the heading 'equity' on a company statement of financial position?

- ☐ Share premium account
- ☐ Retained earnings
- ☐ Revaluation surplus
- ☐ Loan stock

(2 marks)

- 21.8 The correct ledger entries needed to record the issue of 200,000 \$1 shares at a premium of 30c, and paid for in full, would be:

- ☐ DEBIT Ordinary share capital \$200,000
CREDIT Share premium account \$60,000
CREDIT Cash \$140,000
- ☐ DEBIT Cash \$260,000
CREDIT Ordinary share capital \$200,000
CREDIT Share premium account \$60,000
- ☐ DEBIT Ordinary share capital \$200,000
CREDIT Share premium account \$60,000
CREDIT Cash \$260,000
- ☐ DEBIT Cash \$200,000
DEBIT Share premium account \$60,000
CREDIT Ordinary share capital \$260,000

(2 marks)

21.9 Which of the following statements about limited liability companies' accounting is/are correct?

- 1 A revaluation surplus arises when a non-current asset is sold at a profit.
 - 2 The authorised share capital of a company is the maximum nominal value of shares and loan notes the company may issue.
 - 3 IAS 10 *Events After the Reporting Period* requires all non-adjusting events to be disclosed in the notes to the financial statements.
- ☐ 1 and 2
☐ 2 only
☐ 3 only
☐ None of the statements are correct

(2 marks)

21.10 Fruitz Co has a tax liability relating to 20X1 brought forward in 20X2 of \$16,000. This liability is finally agreed at \$18,500, which is paid in 20X2.

Fruitz's accountant estimates their tax liability for profits earned in 20X2 will be \$20,000.

What will be the charge for taxation in Fruitz's statement of profit or loss for the year ended 31 December 20X2?

\$

(2 marks)

(Total = 20 marks)

22 Disclosure notes

22 mins

22.1 Which of the following best describes the purpose of disclosure notes in the financial statements?

- ☐ To provide more detail for the users of financial statements about the information in the statement of financial position and statement of profit or loss and other comprehensive income.
☐ To allow companies to present their financial results in a more favourable way by only disclosing some things in the notes and not on the main financial statements.
☐ To give all the detail of all the transactions that occurred during the period because the main financial statements only present a summary.
☐ To explain the accounting treatment adopted where management have chosen not to apply accounting standards.

(2 marks)

22.2 For which class or classes of assets should a company disclose in the notes to the financial statements a reconciliation of the opening carrying amount to the closing carrying amount, showing the movements in the period?

- 1 Cash
- 2 Intangible assets
- 3 Tangible non-current assets
- 4 Trade receivables
- ☐ 3 only
- ☐ 2 and 3 only
- ☐ 1 and 4 only
- ☐ 1 only

(2 marks)

22.3 Which of the following should be disclosed in the note to the financial statements for inventories?

- 1 The date the inventories were purchased or manufactured and/or how long they have been held as inventories
- 2 The amount of inventories carried at net realisable value
- 3 The accounting policies adopted in measuring inventories
- 4 The useful life of the inventories
- ☐ 3 only
- ☐ 2 and 3 only
- ☐ 1 and 4 only
- ☐ 1 only

(2 marks)

22.4 Which of the following should be disclosed in the note to the financial statements for intangible assets?

- 1 The method of amortisation used
- 2 A reconciliation of the carrying amount at the beginning and end of the period
- 3 The useful life of the assets
- 4 The net realisable value of any deferred development costs capitalised
- ☐ 1, 2 and 3 only
- ☐ 2 and 3 only
- ☐ 3 and 4 only
- ☐ 2 only

(2 marks)

22.5 Which of the following statements is/are correct?

- 1 IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires disclosure in the notes to the financial statements of the uncertainties affecting the outcome of a provision.
 - 2 IAS 10 *Events After the Reporting Period* requires disclosure of the nature and financial effect of a non-adjusting event after the reporting period in the notes to the financial statements.
- ☐ 1 only
- ☐ 2 only
- ☐ Both 1 and 2
- ☐ Neither 1 or 2

(2 marks)

22.6 A certain IFRS requires that the following disclosure is made in a note to the financial statements:

- (a) A brief description of its nature
- (b) Where practicable an estimate of the financial effect
- (c) An indication of the uncertainties relating to the amount or timing of any outflow
- (d) The possibility of any reimbursement

Which of the following does the above disclosure apply to?

- ☐ Provisions
- ☐ Contingent liabilities
- ☐ Contingent assets
- ☐ Events after the reporting period

(2 marks)

22.7 Which of the following should be disclosed in the note to the financial statements for tangible non-current assets?

- 1 The market value of all assets classified as tangible non-current assets, whether they have been revalued or not
 - 2 A reconciliation of the carrying amount of non-current assets at the beginning and end of the period
 - 3 For revalued assets, the methods and significant assumptions applied in estimating the fair value
 - 4 For revalued assets, the carrying amount of each class of assets that would have been included in the financial statements had the assets been carried at cost less depreciation
- ☐ 1, 2 and 3 only
- ☐ 2 and 3 only
- ☐ 2, 3 and 4 only
- ☐ 1 and 4 only

(2 marks)

22.8 Which of the following are required as disclosures by IAS 2 *Inventories*?

- 1 The amount of write-downs of inventories in the period that have been recognised as an expense
 - 2 The original cost of inventories that are carried at net realisable value
 - 3 The carrying amount of inventories classified by type (for example, raw materials, work in progress)
- ☐ 1 and 2 only
☐ 1 and 3 only
☐ 2 and 3 only
☐ 1, 2 and 3

(2 marks)

22.9 Which one of the following is a disclosure about non-adjusting events required by IAS 10 *Events After the Reporting Period*?

- ☐ Dividends declared before the end of the reporting period and paid after the end of the reporting period
☐ The nature of both material and non-material non-adjusting events
☐ The date that the non-adjusting event occurred
☐ An estimate of the financial effect of the event, unless a reasonable estimate cannot be made

(2 marks)

(Total = 18 marks)

23 Events after the reporting period

22 mins

23.1 Which of the following material events after the reporting period and before the financial statements are approved by the directors should be adjusted for in those financial statements?

- 1 A valuation of property providing evidence of impairment in value at the reporting period
 - 2 Sale of inventory held at the end of the reporting period for less than cost
 - 3 Discovery of fraud or error affecting the financial statements
 - 4 The insolvency of a customer with a debt owing at the end of the reporting period which is still outstanding
- ☐ All of them
☐ 1, 2 and 4 only
☐ 3 and 4 only
☐ 1, 2 and 3 only

(2 marks)

- 23.2 The draft financial statements of a limited liability company are under consideration. The accounting treatment of the following material events which occurred after the end of the reporting period needs to be determined.

According to IAS 10 *Events After the Reporting Period*, which **TWO** of the events require an adjustment to the figures in the draft financial statements?

- ☐ The bankruptcy of a major customer, with a substantial debt outstanding at the end of the reporting period
- ☐ A fire destroying some of the company's inventory (the company's going concern status is not affected)
- ☐ An issue of shares to finance expansion
- ☐ Sale for less than cost of some inventory held at the end of the reporting period

(2 marks)

- 23.3 In finalising the financial statements of a company for the year ended 30 June 20X4, which of the following material matters should be adjusted for?

- 1 A customer who owed \$180,000 at the end of the reporting period went bankrupt in July 20X4.
 - 2 The sale in August 20X4 for \$400,000 of some inventory items valued in the statement of financial position at \$500,000.
 - 3 A factory with a carrying amount of \$3,000,000 was seriously damaged by a fire in July 20X4. The factory was back in production by August 20X4 but its value was reduced to \$2,000,000.
 - 4 The company issued 1,000,000 ordinary shares in August 20X4.
- ☐ All four items
 - ☐ 1 and 2 only
 - ☐ 1 and 4 only
 - ☐ 2 and 3 only

(2 marks)

- 23.4 IAS 10 *Events After the Reporting Period* regulates the extent to which events after the reporting period should be reflected in financial statements.

Which one of the following lists of such events consists only of items that, according to IAS 10, should normally be classified as non-adjusting?

- ☐ Insolvency of an account receivable which was outstanding at the end of the reporting period, issue of shares or loan notes, an acquisition of another company
- ☐ Issue of shares or loan notes, changes in foreign exchange rates, major purchases of non-current assets
- ☐ An acquisition of another company, destruction of a major non-current asset by fire, discovery of fraud or error which shows that the financial statements were incorrect
- ☐ Sale of inventory which gives evidence about its value at the end of the reporting period, issue of shares or loan notes, destruction of a major non-current asset by fire

(2 marks)

- 23.5 Which of the following events occurring after the reporting period are classified as adjusting, if material?
- 1 The sale of inventories valued at cost at the end of the reporting period for a figure in excess of cost
 - 2 A valuation of land and buildings providing evidence of an impairment in value at the year end
 - 3 The issue of shares and loan notes
 - 4 The insolvency of a customer with a balance outstanding at the year end
- ☐ 1 and 3
☐ 2 and 4
☐ 2 and 3
☐ 1 and 4
- (2 marks)

- 23.6 The financial statements of Overexposure Co for the year ended 31 December 20X1 are to be approved on 31 March 20X2. Before they are approved, the following events take place.
- 1 On 14 February 20X2 the directors took the strategic decision to sell their investment in Quebec Co despite the fact that this investment generated material revenues.
 - 2 On 15 March 20X2, a fire occurred in the eastern branch factory which destroyed a material amount of inventory. It is estimated that it will cost \$505,000 to repair the significant damage done to the factory.
 - 3 On 17 March 20X2, a customer of Overexposure Co went into liquidation. Overexposure has been advised that it is unlikely to receive payment for any of the outstanding balances owed by the customer at the year end.

How should these events reflected in the financial statements at 31 December 20X1?

- | | <i>Adjust</i> | <i>Disclose</i> | <i>Do nothing</i> |
|-----------------------|---------------|-----------------|-------------------|
| <input type="radio"/> | 3 | 2, 3 | 1 |
| <input type="radio"/> | 2, 3 | 1 | – |
| <input type="radio"/> | 3 | 1, 2 | – |
| <input type="radio"/> | 2 | 3, 1 | |
- (2 marks)

- 23.7 Which of the following events between the reporting date and the date the financial statements are authorised for issue must be adjusted in the financial statements?
- 1 Declaration of equity dividends
 - 2 Decline in market value of investments
 - 3 The announcement of changes in tax rates
 - 4 The announcement of a major restructuring
- ☐ 1 only
☐ 2 and 4
☐ 3 only
☐ None of them
- (2 marks)

- 23.8 Which of the following is the correct definition of an adjusting event after the reporting period?
- ☐ An event that occurs between the reporting date and the date on which the financial statements are authorised for issue that provides further evidence of conditions that existed at the reporting date
 - ☐ An event that occurs between the reporting date and the date on which the financial statements are authorised for issue that provides evidence of conditions that arose subsequent to the reporting date
 - ☐ An event that occurs after the date the financial statements are authorised for issue that provides further evidence of conditions that existed at the reporting date
 - ☐ An event that occurs after the date the financial statements are authorised for issue that provides evidence of conditions that arose subsequent to the reporting date

(2 marks)

- 23.9 If a material event occurs after the reporting date but before the financial statements are authorised for issue outside the organisation, and this event does **NOT** require adjustment, what information should be disclosed in the financial statements?

- ☐ The nature of the event and an estimate of the financial effect (or a statement that such an estimate cannot be made)
- ☐ The nature of the event only
- ☐ An estimate of the financial effect (or a statement that such an estimate cannot be made) only
- ☐ No disclosure required

(2 marks)

(Total = 18 marks)

24 Statements of cash flows

51 mins

- 24.1 Which of the following items appear in a company's statement of cash flows?

- 1 Surplus on revaluation of non-current assets
- 2 Proceeds of issue of shares
- 3 Proposed dividend
- 4 Irrecoverable debts written off
- 5 Dividends received
- ☐ 1, 2 and 5 only
- ☐ 2, 3, 4, 5 only
- ☐ 2 and 5 only
- ☐ 3 and 4 only

(2 marks)

- 24.2 Part of the process of preparing a company's statement of cash flows is the calculation of cash inflow from operating activities.

Which of the following statements about that calculation (using the indirect method) are correct?

- 1 Loss on sale of non-current assets should be deducted from profit before interest and tax.
 - 2 Increase in inventory should be deducted from profit before interest and tax.
 - 3 Increase in payables should be added to profit before interest and tax.
 - 4 Depreciation charges should be added to profit before interest and tax.
- ☐ 1, 2 and 3
☐ 1, 2 and 4
☐ 1, 3 and 4
☐ 2, 3 and 4

(2 marks)

- 24.3 In the course of preparing a company's statement of cash flows, the following figures are to be included in the calculation of net cash from operating activities.

	\$
Depreciation charges	980,000
Profit on sale of non-current assets	40,000
Increase in inventories	130,000
Decrease in receivables	100,000
Increase in payables	80,000

What will the net effect of these items be in the statement of cash flows?

- ☐ Addition to operating profit 890,000
☐ Subtraction from operating profit 890,000
☐ Addition to operating profit 1,070,000
☐ Addition to operating profit 990,000

(2 marks)

- 24.4 Part of a company's draft statement of cash flows is shown below:

	\$'000
Net profit before tax	8,640
Depreciation charges	(2,160)
Proceeds of sale of non-current assets	360
Increase in inventory	(330)
Increase in accounts payable	440

The following criticisms of the above extract have been made:

- 1 Depreciation charges should have been added, not deducted.
- 2 Increase in inventory should have been added, not deducted.
- 3 Increase in accounts payable should have been deducted, not added.
- 4 Proceeds of sale of non-current assets should not appear in this part of the statement of cash flows.

Which of these criticisms are valid?

- ☐ 2 and 3 only
☐ 1 and 4 only
☐ 1 and 3 only
☐ 2 and 4 only

(2 marks)

24.5 In preparing a company's statement of cash flows complying with IAS 7 *Statements of Cash Flows*, which, if any, of the following items could form part of the calculation of cash flow from financing activities?

- 1 Proceeds of sale of premises
- 2 Dividends received
- 3 Bonus issue of shares
- ☐ 1 only
- ☐ 2 only
- ☐ 3 only
- ☐ None of them

(2 marks)

24.6 Which of the following assertions about statements of cash flows is/are correct?

- 1 A statement of cash flows prepared using the direct method produces a different figure for operating cash flow from that produced if the indirect method is used.
- 2 Rights issues of shares do not feature in statements of cash flows.
- 3 A surplus on revaluation of a non-current asset will not appear as an item in a statement of cash flows.
- 4 A profit on the sale of a non-current asset will appear as an item under Cash Flows from Investing Activities in a statement of cash flows.
- ☐ 1 and 4
- ☐ 2 and 3
- ☐ 3 only
- ☐ 2 and 4

(2 marks)

24.7 An extract from a statement of cash flows prepared by a trainee accountant is shown below.

Cash flows from operating activities	\$m
Net profit before taxation	28
Adjustments for: Depreciation	(9)
Operating profit before working capital changes	19
Decrease in inventories	13
Increase in receivables	(4)
Increase in payables	(8)
Cash generated from operations	10

Which **TWO** of the following criticisms of this extract are correct?

- ☐ Depreciation charges should have been added, not deducted.
- ☐ Decrease in inventories should have been deducted, not added.
- ☐ Increase in receivables should have been added, not deducted.
- ☐ Increase in payables should have been added, not deducted.

(2 marks)

24.8 Which of the following items could appear in a company's statement of cash flows?

- 1 Proposed dividends
- 2 Rights issue of shares
- 3 Bonus issue of shares
- 4 Repayment of loan
- ☐ 1 and 3
- ☐ 2 and 4
- ☐ 1 and 4
- ☐ 2 and 3

(2 marks)

24.9 IAS 7 *Statement of Cash Flows* requires the statement of cash flows to open with the calculation of net cash from operating activities, arrived at by adjusting net profit before taxation.

Which one of the following lists consists only of items which could appear in such a calculation?

- ☐ Depreciation, increase in receivables, decrease in payables, proceeds from sale of equipment, increase in inventories
- ☐ Increase in payables, decrease in inventories, profit on sale of plant, depreciation, decrease in receivables
- ☐ Increase in payables, proceeds from sale of equipment, depreciation, decrease in receivables, increase in inventories
- ☐ Depreciation, interest paid, proceeds from sale of equipment, decrease in inventories

(2 marks)

24.10 The following extract is from the financial statements of Pompeii, a limited liability company at 31 October:

	20X9 \$'000	20X8 \$'000
<i>Equity and liabilities</i>		
Share capital	120	80
Share premium	60	40
Retained earnings	85	68
	265	188
<i>Non-current liabilities</i>		
Bank loan	100	150
	365	338

What is the cash flow from financing activities to be disclosed in the statement of cash flows for the year ended 31 October 20X9?

- ☐ \$60,000 inflow
- ☐ \$10,000 inflow
- ☐ \$110,000 inflow
- ☐ \$27,000 inflow

(2 marks)

- 24.11 A draft statement of cash flows contains the following calculation of cash flows from operating activities:

	\$m
Profit before tax	13
Depreciation	2
Decrease in inventories	(3)
Decrease in trade and other receivables	5
Decrease in trade payables	4
Net cash inflow from operating activities	<u>21</u>

Which of the following corrections need to be made to the calculation?

- 1 Depreciation should be deducted, not added.
- 2 Decrease in inventories should be added, not deducted.
- 3 Decrease in receivables should be deducted, not added.
- 4 Decrease in payables should be deducted, not added.

- ☐ 1 and 3
☐ 2 and 3
☐ 1 and 4
☐ 2 and 4

(2 marks)

- 24.12 The following extract is taken from a draft version of company's statement of cash flows, prepared by a trainee accountant.

	\$'000
<i>Net cash flow from operating activities</i>	
Profit before tax	484
Depreciation charges	327
Profit on sale of property, plant and equipment	35
Increase in inventories	(74)
Decrease in trade and other receivables	(41)
Increase in trade payables	29
Cash generated from operations	<u>760</u>

Four possible mistakes that may have been made by the trainee accountant are listed below.

- 1 The profit on sale of property, plant and equipment should be subtracted, not added.
- 2 The increase in inventories should be added, not subtracted.
- 3 The decrease in trade and other receivables should be added, not subtracted.
- 4 The increase in trade payables should be subtracted, not added.

Which of the four mistakes did the trainee accountant make when preparing the draft statement?

- ☐ 1 and 2 only
☐ 1 and 3 only
☐ 2 and 4 only
☐ 3 and 4 only

(2 marks)

24.13 Which, if any, of the following items could be included in 'cash flows from financing activities' in a statement of cash flows that complies with IAS 7 *Statement of Cash Flows*?

- 1 Interest received
- 2 Taxation paid
- 3 Proceeds from sale of property

- ☐ 1 only
☐ 2 only
☐ 3 only
☐ None of them

(2 marks)

24.14 Which one of the following statements is correct, with regard to the preparation of a statement of cash flows that complies with IAS 7 *Statement of Cash Flows*?

- ☐ A statement of cash flows prepared using the direct method produces the same figure for net cash from operating activities as a statement produced by the indirect method.
☐ An increase in a bank overdraft during the accounting period is included within cash flows from financing activities.
☐ A profit on the sale of equipment is included within cash flows from investing activities.
☐ A surplus on the revaluation of property will appear within cash flows from investing activities.

(2 marks)

24.15 The following information is available about the plant, property and equipment of Lok Co, for the year to 31 December 20X3.

	\$'000
Carrying amount of assets at beginning of the year	462
Carrying amount of assets at end of the year	633
Increase in revaluation surplus during the year	50
Disposals during the year, at cost	110
Accumulated depreciation on the assets disposed of	65
Depreciation charge for the year	38

Based on this information, what amount will be included for purchases of property, plant and equipment for the year, in a statement of cash flows that complies with IAS 7 *Statement of Cash Flows*?

--	--

(2 marks)

- 24.16 A company sold warehouse premises at a loss during a financial period. How would this transaction be included in a statement of cash flows for the period that complies with IAS 7 *Statement of Cash Flows* and that uses the indirect method to present cash flows from operating activities?

	<i>Loss on disposal</i>	<i>Proceeds from sale</i>
<input type="radio"/>	Deduct as an adjustment in the calculation of cash flows from operating activities	Include in cash flows from investing activities
<input type="radio"/>	Deduct as an adjustment in the calculation of cash flows from operating activities	Include in cash flows from operating activities
<input type="radio"/>	Add as an adjustment in the calculation of cash flows from operating activities	Include in cash flows from investing activities
<input type="radio"/>	Add as an adjustment in the calculation of cash flows from operating activities	Include in cash flows from operating activities

(2 marks)

- 24.17 Big Time Co had the following transactions during the year.

- Purchases from suppliers were \$18,500, of which \$2,550 was unpaid at the year end. Brought forward payables were \$1,000.
- Wages and salaries amounted to \$9,500, of which \$750 was unpaid at the year end. The financial statements for the previous year showed an accrual for wages and salaries of \$1,500.
- Interest of \$2,100 on a long-term loan was paid in the year.
- Sales revenue was \$33,400, including \$900 receivables at the year end. Brought forward receivables were \$400.

Using the direct method, what is Big Time Co's cash flow from operating activities?

(2 marks)

- 24.18 Which one of the following statements is correct?

- ☐ If a business makes a profit, it has positive cash flow.
- ☐ If a business makes a loss, it has negative cash flow.
- ☐ A business may make a profit but have negative cash flow.
- ☐ A business that breaks even has cash inflows equal to cash used.

(2 marks)

- 24.19 Toots Co has made healthy profits for the past year, although at times the company has been close to running out of cash. Because Toots Co is profitable, Adam – their accountant – is unconcerned by the cash shortage. Jo, the financial controller at Toots Co, is concerned. Jo tells Adam, 'profits are fine on paper, but in the real world cash is king'. Jo believes Toots Co needs to take a more proactive approach to cash flow management.

Adam and Jo have two different views. Who is correct, and why?

- ☐ Adam is correct. A profitable business should not waste management time on cash flow issues.
- ☐ Adam is correct. A profitable business will always survive and prosper.
- ☐ Jo is correct. Proactive cash flow management is required under IAS 7 *Statement of Cash Flows*.
- ☐ Jo is correct. A business that does not have cash available to fund operations is likely to fail.

(2 marks)

- 24.20 Which one of the following statements correctly identifies a valid disadvantage to users of financial statements of the statement of cash flows?

- ☐ Under IAS 7 *Statement of Cash Flows*, an entity may use any format for their statement.
- ☐ There is an opportunity to reclassify some cash outflows that might have been reported in the operating section as investing cash outflows.
- ☐ Under IAS 7 *Statement of Cash Flows* the statement of cash flows may cover a different period of time to the other financial statements.
- ☐ Cash flow figures are more open to manipulation than the profit figure.

(2 marks)

- 24.21 The accountant of F Co is preparing the statement of cash flows using the direct method for reporting cash flows from operating activities. The following information is available at 31 March 20X7.

	\$
Sales	750,000
Purchases	400,000
Receivables at 31 March 2017	184,000
Receivables at 1 April 2016	163,000
Payables at 31 March 2017	102,000
Payables at 1 April 2016	111,000

What will be disclosed as cash receipts from customers in the statement of cash flows for the year ended 31 March 20X7?

- ☐ \$320,000
- ☐ \$771,000
- ☐ \$750,000
- ☐ \$729,000

(2 marks)

(Total = 42 marks)

Do you know? – Preparing simple consolidated financial statements

Check that you can fill in the blanks in the statements below before you attempt any questions. If in doubt, you should go back to your BPP Workbook and revise first.

- means presenting the results, assets and liabilities of a group of companies as if they were one company.
- A is an entity controlled by another entity.
- An is an entity over which another entity exerts significant influence.
- are accounted for in the consolidated statements of a group using the **a**..... method.
- A **t**..... **i**..... is a simple investment in the shares of another entity that is not an associate or a subsidiary.
- financial statements present the results of the **g**....., they do not replace the separate financial statements of the individual group companies.
- Basic consolidation consists of two procedures:
 - which appear as an asset in one company and a liability in another
 - Then adding together all the assets and liabilities on a line-by-line basis
- arising on consolidation is recognised as an asset in the consolidated statement of financial position.
- The **n**....-**c**..... **i**..... shows the extent to which net assets controlled by the group are owned by other parties.
- A consolidation adjustment is required to remove profit on intra-group trading and transfer of non-current assets.
- When a parent company acquires a subsidiary part way through the year, the profits for the period need to be apportioned between **p**..... and **p**..... acquisition. Only **p**..... acquisition profits are included in the group's consolidated statement of financial position.
- The statement of profit or loss is prepared by combining the statements of profit or loss of each group company on a line-by-line basis.
- Intra-group and are eliminated from the consolidated statement of profit or loss.
- If a is acquired during the year, only the post-acquisition element of statement of profit or loss balances are included on consolidation.

Do you know? – Preparing simple consolidated financial

Could you fill in the blanks? The answers are in bold. Use this page for revision purposes as you approach the exam.

- **Consolidation** means presenting the results, assets and liabilities of a group of companies as if they were one company.
- A **subsidiary** is an entity controlled by another entity.
- An **associate** is an entity over which another entity exerts significant influence.
- **Associates** are accounted for in the consolidated statements of a group using the **equity** method.
- A **trade investment** is a simple investment in the shares of another entity that is not an associate or a subsidiary.
- **Consolidated** financial statements present the results of the **group**, they do not replace the separate financial statements of the individual group companies.
- Basic consolidation consists of two procedures:
 - **Cancelling out items** which appear as an asset in one company and a liability in another
 - Then adding together all the **uncancelled** assets and liabilities on a line-by-line basis
- **Goodwill** arising on consolidation is recognised as an **intangible** asset in the consolidated statement of financial position.
- The **non-controlling interest (NCI)** shows the extent to which net assets controlled by the group are owned by other parties.
- A consolidation adjustment is required to remove **unrealised** profit on intra-group trading and transfer of non-current assets.
- When a parent company acquires a subsidiary part way through the year, the profits for the period need to be apportioned between **pre** and **post** acquisition. Only **post** acquisition profits are included in the group's consolidated statement of financial position.
- The **consolidated** statement of profit or loss is prepared by combining the statements of profit or loss of each group company on a line-by-line basis.
- Intra-group **sales** and **purchases** are eliminated from the consolidated statement of profit or loss.
- If a **subsidiary** is acquired during the year, only the post-acquisition element of statement of profit or loss balances are included on consolidation.

25 15 mark questions: preparing simple consolidated financial statements

72 mins

Exam focus point. This question provides excellent practice of the knowledge and skills required to tackle long questions that may appear in Section B of the exam.

25.1 Swing and Cat

Swing purchased 80% of Cat's equity on 1 January 20X7 for \$120,000 when Cat's retained earnings were \$50,000. The fair value of the non-controlling interest on that date was \$40,000. During the year, Swing sold goods which cost \$80,000 to Cat, at an invoiced cost of \$100,000. Cat had 50% of the goods still in inventories at the year end. The two companies' draft financial statements as at 31 December 20X8 are shown below.

STATEMENTS OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 20X8

	Swing \$'000	Cat \$'000
Revenue	5,000	1,000
Cost of sales	<u>2,900</u>	<u>600</u>
Gross profit	2,100	400
Other expenses	<u>1,700</u>	<u>320</u>
Net profit	400	80
Income tax	<u>130</u>	<u>25</u>
Profit for the year	<u>270</u>	<u>55</u>

STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 20X8

	Swing \$'000	Cat \$'000
<i>Non-current assets</i>		
Investment in Cat	120	–
Tangible non-current assets	<u>1,880</u>	<u>200</u>
	<u>2,000</u>	<u>200</u>
<i>Current assets</i>		
Inventory	500	120
Trade receivables	650	40
Bank and cash	<u>390</u>	<u>35</u>
	<u>1,540</u>	<u>195</u>
	<u>3,540</u>	<u>395</u>
<i>Equity and liabilities</i>		
<i>Equity</i>		
Share capital	2,000	100
Retained earnings	<u>400</u>	<u>200</u>
	<u>2,400</u>	<u>300</u>
<i>Current liabilities</i>		
Trade payables	910	30
Tax	<u>230</u>	<u>65</u>
	<u>1,140</u>	<u>95</u>
	<u>3,540</u>	<u>395</u>

Task 1

Complete the following to determine goodwill at acquisition.

Consideration transferred on acquisition	<input type="text"/>	
Fair value of non-controlling interest	<input type="text"/>	Add / Subtract
Total cost of investment	<input type="text"/>	
Fair value of net assets at acquisition:		
Equity share capital	<input type="text"/>	
Retained earnings	<input type="text"/>	
Total net assets	<input type="text"/>	
Goodwill	<input type="text"/>	

(4 marks)

Task 2

What is the amount of the adjustment for unrealised profit on inventory?

(1.5 marks)

Task 3

What will be consolidated cost of sales at 31 December 20X8?

(2.5 marks)

Task 4

Which **TWO** of the following statements concerning the non-controlling interest are correct?

- ☐ Non-controlling interest describes shares in the consolidated entity not held by the parent.
- ☐ Non-controlling interest describes shares in the subsidiary not held by the parent.
- ☐ 20% of Swing's consolidated retained earnings will be allocated to the non-controlling interest.
- ☐ 20% of Cat's profit after tax will be allocated to the non-controlling interest.

(2 marks)

Task 5

Complete the following to determine consolidated retained earnings.

	Swing \$'000	Cat \$'000	
Per question	<input type="text"/>	<input type="text"/>	
Adjustment	<input type="text"/>		Add/subtract
Pre-acquisition retained earnings		<input type="text"/>	Add/subtract
Total		<input type="text"/>	
Group share of Cat	<input type="text"/>		
Group retained earnings	<input type="text"/>		

(5 marks)

25.2 Black and Bury

The following are the financial statements relating to Black, a limited liability company, and its subsidiary company Bury.

STATEMENTS OF PROFIT OR LOSS FOR THE YEAR ENDED 31 OCTOBER 20X5

	Black \$'000	Bury \$'000
Sales revenue	245,000	95,000
Cost of sales	(140,000)	(52,000)
Gross profit	105,000	43,000
Distribution costs	(12,000)	(10,000)
Administrative expenses	(55,000)	(13,000)
Dividend income from Bury	7,000	–
Profit before tax	45,000	20,000
Tax	(13,250)	(5,000)
Profit for the year	<u>31,750</u>	<u>15,000</u>

STATEMENTS OF FINANCIAL POSITION AS AT 31 OCTOBER 20X5

	Black \$'000 \$'000		Bury \$'000 \$'000	
Assets				
Non-current assets				
Property, plant and equipment		110,000		40,000
Investments				
21,000,000 \$1 ordinary shares in Bury at cost		<u>21,000</u>		<u>–</u>
		131,000		40,000
Current assets				
Inventory, at cost	13,360		3,890	
Trade receivables and dividend receivable	14,640		6,280	
Bank	<u>3,500</u>		<u>2,570</u>	
Total assets		<u>31,500</u>		<u>12,740</u>
		162,500		52,740
Equity and liabilities				
Equity				
\$1 Ordinary shares		100,000		30,000
Retained earnings		<u>33,500</u>		<u>10,280</u>
		133,500		40,280
Current liabilities				
Payables	9,000		2,460	
Dividend	<u>20,000</u>		<u>10,000</u>	
Total equity and liabilities		<u>29,000</u>		<u>12,460</u>
		162,500		52,740

Additional information

- Black purchased its \$1 ordinary shares in Bury on 1 November 20X0. At that date the balance on Bury's retained earnings was \$2 million. The fair value of the non-controlling interest at the date of acquisition was \$11,800,000. Goodwill on acquisition was \$800,000.
- During the year ended 31 October 20X5 Black sold goods which originally cost \$12 million to Bury. Black invoiced Bury at cost plus 40%. Bury still has 30% of these goods in inventory at 31 October 20X5.
- Bury owed Black \$1.5 million at 31 October 20X5 for some of the goods Black supplied during the year.

Task 1

Black purchased its shares in Bury on 1 November 20X0. Goodwill on acquisition was \$800,000.

What was the amount paid by Black to acquire the shares? (see the information in point (a))

(3 marks)**Task 2**

The dividend due to Black from Bury will be:

- ☐ Included in consolidated profit for the year
- ☐ Added to the total of non-controlling interest
- ☐ Included in consolidated current liabilities
- ☐ Eliminated on consolidation

The dividend payable by Black will be:

- ☐ Deducted from consolidated profit for the year
- ☐ Deducted from consolidated current assets
- ☐ Included in consolidated current liabilities
- ☐ Eliminated on consolidation

(4 marks)**Task 3**

What is the amount of the unrealised profit on the intragroup sale?

Show how this is posted:

	DEBIT	CREDIT
Inventory	<input type="radio"/>	<input type="radio"/>
Retained earnings	<input type="radio"/>	<input type="radio"/>

(3 marks)**Task 4**

Bury owed Black \$1.5 million for goods supplied. How will this be accounted for in the consolidated financial statements?

	DEBIT	CREDIT
Payables	<input type="radio"/>	<input type="radio"/>
Receivables	<input type="radio"/>	<input type="radio"/>

(1 marks)**Task 5**

Non-controlling interest will appear in both the consolidated statement of profit or loss (SPL) and the consolidated statement of financial position (SFP).

The amount of non-controlling interest in the consolidated SPL is

Fill in the blanks to calculate the amount of non-controlling interest in the consolidated SFP.

	\$	
Fair value at acquisition	<input type="text"/>	
Share of post-acquisition retained earnings	<input type="text"/>	Add / subtract
Total	<input type="text"/>	

(4 marks)

25.3 Prestend

Prestend is the parent company of Northon. The following are the statements of financial position for both companies as at 31 October 20X7.

	Prestend		Northon	
	\$'000	\$'000	\$'000	\$'000
Assets				
<i>Non-current assets</i>				
Property, plant and equipment		4,200		3,300
Investments: shares in Northon at cost		3,345		–
<i>Current assets</i>				
Inventory	1,500		800	
Receivables	1,800		750	
Bank	<u>600</u>		<u>350</u>	
		<u>3,900</u>		<u>1,900</u>
Total assets		<u>11,445</u>		<u>5,200</u>
Equity and liabilities				
<i>Equity</i>				
\$1 ordinary shares		9,000		4,000
Retained earnings		<u>525</u>		<u>200</u>
		<u>9,525</u>		<u>4,200</u>
<i>Current liabilities</i>				
Payables		1,220		200
Tax		<u>700</u>		<u>800</u>
Total equity and liabilities		<u>11,445</u>		<u>5,200</u>

The following information is also available.

- Prestend purchased 2,800,000 shares in Northon a year ago when Northon had retained earnings of \$60,000. The fair value of the non-controlling interest at the date of acquisition was \$1,415,000.
- During the year Prestend sold goods with an invoice value of \$240,000 to Northon. These goods were invoiced at cost plus 20%. Half of the goods are still in Northon's inventory at the year end.
- Northon owes Prestend \$30,000 at 31 October 20X7 for goods it purchased during the year.

Task 1

Complete the following to determine goodwill at acquisition:

	\$	
Fair value of consideration transferred	<input type="text"/>	
Fair value of non-controlling interest at acquisition	<input type="text"/>	Add / Subtract
Total A	<input type="text"/>	
Fair value of net assets acquired:		
Ordinary share capital	<input type="text"/>	
Retained earnings	<input type="text"/>	
Total B	<input type="text"/>	

Select the correct formula for goodwill:

- ☐ A minus 100% B
☐ A minus 70% B
☐ A plus 100% B
☐ A plus 70% B

(5 marks)

Task 2

What is the unrealised profit on intragroup sales?

- ☐ \$40,000
☐ \$48,000
☐ \$20,000
☐ \$24,000

(2 marks)**Task 3**

A parent-subsidiary relationship is based on **control**.

Which **TWO** of the following would signify that one entity controls another?

- ☐ Ownership of more than 50% of equity shares
☐ Ownership of 40% of equity shares and 80% of preference shares
☐ Ability to exert significant influence over policies
☐ Power to appoint or remove the majority of board members

(2 marks)**Task 4**

Fill in the gaps to complete the working for group retained earnings.

	Prestend \$'000		Northon \$'000	
Per question	<input type="text"/>		<input type="text"/>	
Adjustment for unrealised profit	<input type="text"/>	OR	<input type="text"/>	Add / Subtract
Pre-acquisition retained earnings	<input type="text"/>	OR	<input type="text"/>	Add / Subtract
Total Northon			<input type="text"/>	
Group share of Northon	<input type="text"/>			
Group retained earnings	<input type="text"/>			

(6 marks)**25.4 Liverton and Everpool**

The summarised statements of profit or loss of two companies, Liverton and Everpool, for the year ended 31 May 20X6 are provided below. Liverton acquired 3,000,000 ordinary shares in Everpool for \$3,500,000 on 1 June 20X4. At that time, the retained earnings of Everpool were \$200,000 and the fair value of the non-controlling interest in Everpool was \$1,000,000.

STATEMENTS OF PROFIT OR LOSS FOR THE YEAR ENDED 31 MAY 20X6

	Liverton \$'000	Everpool \$'000
Sales revenue	6,400	2,600
Cost of sales	(3,700)	(1,450)
Gross profit	2,700	1,150
Distribution costs	(1,100)	(490)
Administrative expenses	(700)	(320)
Profit from operations	900	340
Dividends received from Everpool	150	—
Profit before tax	1,050	340
Tax	(400)	(80)
Profit for the year	650	260

The following information is also available.

- (a) Everpool's total share capital consists of 4,000,000 ordinary shares of \$1 each.
- (b) During the year ended 31 May 20X6 Liverton sold goods costing \$120,000 to Everpool for \$200,000. At 31 May 20X6, 60% of these goods remained in Everpool's inventory.

Task 1

Complete the following to determine goodwill on acquisition of Everpool.

	\$
Fair value of consideration transferred	<input type="text"/>
Fair value of non-controlling interest	<input type="text"/>
Total	<input type="text"/>
Fair value of net assets acquired:	
Share capital	<input type="text"/>
Retained earnings	<input type="text"/>
Total	<input type="text"/>
Goodwill	<input type="text"/>

(3 marks)

Task 2

Calculate the unrealised profit on Liverton's sales to Everpool.

(2 marks)

Task 3

Complete the consolidated statement of profit or loss.

	\$
Sales revenue	<input type="text"/>
Cost of sales	<input type="text"/>
Gross profit	<input type="text"/>
Distribution costs	<input type="text"/>
Administrative expenses	<input type="text"/>
Profit before tax	<input type="text"/>
Income tax expense	<input type="text"/>
Profit for the year	<input type="text"/>
Profit attributable to:	
Owners of the parent	<input type="text"/>
Non-controlling interest	<input type="text"/>
	<input type="text"/>

(10 marks)

(Total = 60 marks)

26 Consolidated financial statements

65 mins

The following information is relevant for Questions 26.1 to 26.3.

On 1 January 20X0 Alpha Co purchased 90,000 ordinary \$1 shares in Beta Co for \$270,000. At that date Beta Co's retained earnings amounted to \$90,000 and the fair values of Beta Co's assets at acquisition were equal to their book values.

Three years later, on 31 December 20X2, the statements of financial position of the two companies were:

	Alpha Co \$	Beta Co \$
Sundry net assets	230,000	260,000
Shares in Beta	180,000	—
	<u>410,000</u>	<u>260,000</u>
Share capital		
Ordinary shares of \$1 each	200,000	100,000
Retained earnings	210,000	160,000
	<u>410,000</u>	<u>260,000</u>

The share capital of Beta Co has remained unchanged since 1 January 20X0. The fair value of the non-controlling interest at acquisition was \$42,000.

- 26.1 What amount should appear in the group's consolidated statement of financial position at 31 December 20X2 for goodwill?

- ☐ \$52,000
☐ \$80,000
☐ \$122,000
☐ \$212,000

(2 marks)

- 26.2 What amount should appear in the group's consolidated statement of financial position at 31 December 20X2 for non-controlling interest?

- ☐ \$49,000
☐ \$58,000
☐ \$51,000
☐ \$42,000

(2 marks)

- 26.3 What should the figure for retained earnings be in the group's consolidated statement of financial position at 31 December 20X2?

(2 marks)

26.4 Which of the following companies are subsidiaries of Gamma Co?

Zeta Co: Gamma Co owns 51% of the non-voting preference shares of Zeta Co.

Iota Co: Gamma Co has three representatives on the board of directors of Iota Co. Each director can cast 10 votes each out of the total of 40 votes at board meetings.

Kappa Co: Gamma Co owns 75% of the ordinary share capital of Kappa Co, however Kappa Co is located overseas and is subject to tax in that country.

- ☐ Zeta Co, Iota Co and Kappa Co
- ☐ Zeta Co and Kappa Co
- ☐ Iota Co and Kappa Co
- ☐ Zeta Co and Iota Co

(2 marks)

The following information is relevant for Questions 26.5 and 26.6.

Hilton Co acquired 80% of the share capital of Shrew Co on 1 January 20X3 for \$280,000.

The statements of financial position of the two companies at 31 December 20X3 were as follows:

STATEMENTS OF FINANCIAL POSITION

	Hilton Co \$	Shrew Co \$
Sundry assets	660,000	290,000
Investment in Shrew	280,000	–
	<u>940,000</u>	<u>290,000</u>
Issued share capital	400,000	140,000
Share premium account	320,000	50,000
Retained earnings		
As at 1 Jan 20X3	140,000	60,000
Profit for 20X3	80,000	40,000
	<u>940,000</u>	<u>290,000</u>

There have been no changes in the share capital or share premium account of either company since 1 January 20X3. The fair value of the non-controlling interest on acquisition was \$65,000.

26.5 What figure for goodwill on consolidation should appear in the consolidated statement of financial position of the Hilton group at 31 December 20X3?

- ☐ \$30,000
- ☐ \$55,000
- ☐ \$95,000
- ☐ \$(10,000)

(2 marks)

26.6 What figure for non-controlling interest should appear in the consolidated statement of financial position of the Hilton group at 31 December 20X3?

- ☐ \$77,000
- ☐ \$85,000
- ☐ \$73,000
- ☐ \$105,000

(2 marks)

- 26.7 Fanta Co acquired 100% of the ordinary share capital of Tizer Co on 1 October 20X7.

On 31 December 20X7 the share capital and retained earnings of Tizer Co were as follows:

	\$'000
Ordinary shares of \$1 each	400
Retained earnings at 1 January 20X7	100
Retained profit for the year ended 31 December 20X7	<u>80</u>
	<u>580</u>

The profits of Tizer Co have accrued evenly throughout 20X7. Goodwill arising on the acquisition of Tizer Co was \$30,000.

What was the cost of the investment in Tizer Co?

- ☐ \$400,000
- ☐ \$580,000
- ☐ \$610,000
- ☐ \$590,000

(2 marks)

- 26.8 Evergreen Co owns 35% of the ordinary shares of Deciduous. What is the correct accounting treatment of the revenues and costs of Deciduous for reporting period in the consolidated statement of profit or loss of the Evergreen group?

- ☐ The revenues and costs of Deciduous are added to the revenues and costs of Evergreen on a line by line basis.
- ☐ 35% of the profit after tax of Deciduous should be added to Evergreen's consolidated profit before tax.
- ☐ 35% of the revenues and costs of Deciduous are added to the revenues and costs of Evergreen on a line by line basis.
- ☐ The revenues and costs of Deciduous are added to the revenues and costs of Evergreen Co on a line by line basis, then 65% of the profit after tax is deducted so that only Evergreen Co's share remains in the consolidated financial statements.

(2 marks)

- 26.9 Mercedes Co has owned 100% of Benz Co since incorporation. At 31 March 20X9 extracts from their individual statements of financial position were as follows.

	Mercedes Co	Benz Co
	\$	\$
Share capital	100,000	50,000
Retained earnings	<u>450,000</u>	<u>120,000</u>
	<u>550,000</u>	<u>170,000</u>

During the year ended 31 March 20X9, Benz Co had sold goods to Mercedes Co for \$50,000. Mercedes Co still had these goods in inventory at the year end. Benz Co uses a 25% mark up on all goods.

What were the consolidated retained earnings of Mercedes Group at 31 March 20X9?

- ☐ \$560,000
- ☐ \$580,000
- ☐ \$570,000
- ☐ \$557,500

(2 marks)

- 26.10 Micro Co acquired 90% of the \$100,000 ordinary share capital of Minnie Co for \$300,000 on 1 January 20X9 when the retained earnings of Minnie Co were \$156,000. At the date of acquisition the fair value of plant held by Minnie Co was \$20,000 higher than its carrying amount. The fair value of the non-controlling interest at the date of acquisition was \$75,000.

What is the goodwill arising on the acquisition of Minnie Co?

- ☐ \$119,000
☐ \$99,000
☐ \$139,000
☐ \$24,000

(2 marks)

- 26.11 On 1 April 20X7 Possum Co acquired 60% of the share capital of Koala Co for \$120,000. During the year Possum Co sold goods to Koala Co for \$30,000, including a profit margin of 25%. 40% of these goods were still in inventory at the year end.

The following extract was taken from the financial statements of Possum Co and Koala Co at 31 March 20X8.

	Possum Co \$'000	Koala Co \$'000
Revenue	750	400
Cost of sales	(420)	(100)
Gross profit	<u>330</u>	<u>300</u>

What is the consolidated gross profit of the Possum group at 31 March 20X8?

- ☐ \$627,600
☐ \$633,000
☐ \$622,500
☐ \$627,000

(2 marks)

- 26.12 Which **TWO** of the following statements are correct?

- ☐ Aye Co owns 25% of the ordinary share capital of Bee Co, which means that Bee Co is an associate of Aye Co.
☐ Cee Co can appoint 4 out of 6 directors to the board of Dee Co, which means that Cee Co has control over Dee Co.
☐ Ear Co has the power to govern the financial and operating policies of Fef Co, which means that Fef Co is an associate of Ear Co.
☐ Gee Co owns 19% of the share capital of Hay Co, but by agreement with the majority shareholder, has control over the financial and operating policies of Hay Co, so Hay Co is an associate of Gee Co.

(2 marks)

- 26.13 Clementine Co has owned 21% of the ordinary shares of Tangerine Co for several years. Clementine Co does not have any investments in any other companies, and chooses to account for the investment at cost.

How should the investment in Tangerine Co be reflected in the financial statements of Clementine Co?

- ☐ The revenues and costs and assets and liabilities of Tangerine Co are added to the revenues and costs and assets and liabilities of Clementine Co on a line by line basis.
- ☐ An amount is shown in the statement of financial position for 'investment in associate' being the original cost paid for the investment plus Clementine Co's share of the profit after tax of Tangerine Co. 21% of the profit after tax of Tangerine Co should be added to Clementine Co's profit before tax in the statement of profit or loss each year.
- ☐ An amount is shown in the statement of financial position under 'investments' being the original cost paid for the investment, this amount does not change. Dividends received from Tangerine are recognised in the statement of profit or loss of Clementine Co.
- ☐ An amount is shown in the statement of financial position under 'investments' being the original cost paid for the investment, this amount does not change. 21% of the profit after tax of Tangerine Co should be added to Clementine Co's profit after tax in the statement of profit or loss each year.

(2 marks)

- 26.14 Which of the following statements relating to parent companies and subsidiaries are correct?

- 1 A parent company could consolidate a company in which it holds less than 50% of the ordinary share capital in certain circumstances.
 - 2 Goodwill on consolidation will appear as an item in the parent company's individual statement of financial position.
 - 3 Consolidated financial statements ignore the legal form of the relationship between parents and subsidiaries and present the results and position of the group as if it was a single entity.
- ☐ 1 and 2 only
 - ☐ 1 and 3 only
 - ☐ 2 and 3 only
 - ☐ 3 only

(2 marks)

- 26.15 P Co, the parent company of a group, owns shares in three other companies. P Co's holdings are:

- Q Shares giving control of 60% of the voting rights in Q Co.
- R Shares giving control of 20% of the voting rights in R Co. P Co also has the right to appoint or remove all the directors of R Co.
- S Shares giving control of 10% of the voting rights in S Co, plus 90% of the non-voting preference shares.

Which of these companies are subsidiaries of P Co?

- ☐ Q Co, R Co and S Co
- ☐ Q Co and S Co only
- ☐ R Co and S Co only
- ☐ Q Co and R Co only

(2 marks)

26.16 Which of the following should be accounted for in the consolidated financial statements of Company A using equity accounting?

- 1 An investment in 51% of the ordinary shares of W Co
 - 2 An investment in 20% of the preference (non-voting) shares of X Co
 - 3 An investment in 33% of the ordinary shares of Y Co
 - 4 An investment in 20% of the ordinary shares of Z Co, and an agreement with other shareholders to appoint the majority of the directors to the board of Z Co
- ☐ 1 and 4 only
☐ 2 only
☐ 3 only
☐ 3 and 4 only

(2 marks)

26.17 Breakspear Co purchased 600,000 of the voting equity shares of Fleet Co when the value of the non-controlling interest in Fleet Co is \$150,000.

The following information relates to Fleet at the acquisition date.

	At acquisition \$'000
Share capital, \$0.5 ordinary shares	500
Retained earnings	150
Revaluation surplus	50
	<u>700</u>

The goodwill arising on acquisition is \$70,000. What was the consideration paid by Breakspear Co for the investment in Fleet Co?

- ☐ \$420,000
☐ \$770,000
☐ \$620,000
☐ \$570,000

(2 marks)

26.18 Date Co owns 100% of the ordinary share capital of Prune Co. The following balances relate to Prune Co.

	At acquisition \$'000	At 31.12.X8 \$'000
<i>Tangible non-current assets</i>		
Freehold land	500	500
Plant and equipment	<u>350</u>	<u>450</u>
	<u>850</u>	<u>950</u>

At acquisition, the fair value of Prune Co's land was \$50,000 more than shown in the financial statements of Prune Co. At 31 December 20X8, Date Co's financial statements show a total tangible non-current asset balance of \$1,250,000.

What amount should be included in the consolidated financial statements of the Date group at 31 December 20X8 for tangible non-current assets?

- ☐ \$2,250,000
☐ \$1,000,000
☐ \$1,850,000
☐ \$2,200,000

(2 marks)

- 26.19 Six Co owns 80% of the equity share capital of Seven Co. At 31 December 20X4, the trade receivables and trade payables of the two companies were as follows:

	Six Co	Seven Co
Trade receivables	\$64,000	\$39,000
Trade payables	\$37,000	\$48,000

These figures include \$30,000 that is owed by Seven Co to Six Co for the purchase of goods, for which Six Co has not yet paid. These goods were sold by Six Co for a profit of \$15,000 and 50% of them were still held as inventory by Seven Co at 31 December 20X4.

What should be the amounts for trade receivables and trade payables in the consolidated statement of financial position as at 31 December 20X4?

- ☐ Trade receivables \$73,000, Trade payables \$55,000
☐ Trade receivables \$88,000, Trade payables \$70,000
☐ Trade receivables \$95,000, Trade payables \$77,000
☐ Trade receivables \$103,000, Trade payables \$85,000

(2 marks)

- 26.20 Donna Co acquired 80% of the equity share capital of Blitsen Co on 1 January 20X4 when the retained earnings of Blitsen Co were \$40,000. The fair value of the non-controlling interest at this date was \$25,000. At 31 December 20X4, the equity capital of Blitsen Co was as follows:

	\$'000
Share capital	40
Share premium	10
Retained earnings	60
	<u>110</u>

During the year Blitsen Co sold goods to Donna Co for \$20,000. This price included a mark-up of \$12,000 for profit. At 31 December 20X4, 50% of these goods remained unsold in the inventory of Donna Co.

What is the value of the non-controlling interest in the Donna Group at 31 December 20X4, for the purpose of preparing the consolidated statement of financial position?

(2 marks)

- 26.21 Volcano Co acquired 75% of the equity share capital of Lava Co on 1 September 20X3. The retained profits of the two individual companies at the beginning and end of their financial year were as follows.

	Volcano Co \$'000	Lava Co \$'000
Retained earnings at 1 January 20X3	596	264
Retained earnings at 31 December 20X3	650	336

What is the parent company's share of consolidated retained earnings that should be reported in the consolidated statement of financial position of the Volcano Group at 31 December 20X3?

- ☐ \$668,000
☐ \$674,000
☐ \$704,000
☐ \$722,000

(2 marks)

- 26.22 Tin Co acquired 90% of the equity share capital of Drum Co on 1 April 20X3. The following information relates to the financial year to 31 December 20X3 for each company.

	<i>Tin Co</i>	<i>Drum Co</i>
	\$'000	\$'000
Retained earnings at 1 January 20X3	840	170
Profit for the year	70	60
Retained earnings at 31 December 20X3	<u>910</u>	<u>230</u>

Neither company paid any dividends during the year.

What profit is attributable to the parent company in the consolidated statement of profit or loss of the Tin Group for the year to 31 December 20X3?

- ☐ \$83,500
☐ \$110,500
☐ \$115,000
☐ \$124,000

(2 marks)

- 26.23 Sand Co acquired 80% of the equity share capital of Sun Co several years ago. In the year to 31 December 20X4, Sand Co made a profit after taxation of \$120,000 and Sun Co made a profit after taxation of \$35,000. During the year Sun Co sold goods to Sand Co at a price of \$40,000. The profit mark-up was 40% on the sales price. At 31 December 20X4, 25% of these goods were still held in the inventory of Sand Co.

What profit is attributable to the parent company in the consolidated statement of profit or loss of the Sand Group for the year to 31 December 20X4?

- ☐ \$144,000
☐ \$148,000
☐ \$144,800
☐ \$151,000

(2 marks)

- 26.24 On 1 August 20X7 Patronic purchased 18 million of the 24 million \$1 equity shares of Sardonic. The acquisition was through a share exchange of two shares in Patronic for every three shares in Sardonic. The market price of a share in Patronic at 1 August 20X7 was \$5.75.

What is the fair value of the consideration transferred for the acquisition of Sardonic?

- ☐ \$103.5 million
☐ \$69 million
☐ \$155.25 million
☐ \$92 million

(2 marks)

- 26.25 X Co acquired 80% of the equity share capital in Y Co on 31 July 20X6. Extracts from the two companies' statements of profit or loss for the year ended 30 September 20X6 were as follows:

	X Co \$'000	Y Co \$'000
Revenue	3 400	2 400
Cost of sales	1 500	1 800

During the year ended 30 September 20X6, Y Co sold goods for \$5 000 each month to X Co, at a mark up of 25%. At the end of the year X Co had 50% of these goods left in inventory.

What is the group gross profit for the year ended 30 September 20X6?

- ☐ \$1,901,000
☐ \$1,999,000
☐ \$2,004,000
☐ \$1,904,000

(2 marks)

- 26.26 WX acquired 75% of the equity share capital of YZ several years ago. At 31 March 20X6 WX had goods in inventory valued at cost of \$60,000, that had been purchased from YZ at a mark-up of 20%.

What is the effect on the profit attributable to the non-controlling interest, and the profit attributable to the parent company for the year ended 31 March 20X6?

Profit attributable to non-controlling interest

Profit attributable to WX

- | | |
|---|----------------------|
| <input type="radio"/> no effect | decrease by \$5,000 |
| <input type="radio"/> no effect | decrease by \$12,000 |
| <input type="radio"/> decrease by \$3,000 | decrease by \$9,000 |
| <input type="radio"/> decrease by \$2,500 | decrease by \$7,500 |

(2 marks)

- 26.27 P owns 80% of the equity share capital of S. The profit after tax of S for the year ended 31 December 20X6 was \$60 million. During 20X6, P sold goods to S for \$4 million at cost plus 20%. At the year end 50% of these goods were left in the inventory of S.

What is non-controlling interest share of the after-tax profit of S for the year ended 31 December 20X6?

- ☐ \$11.36 million
☐ \$11.6 million
☐ \$11.68 million
☐ \$12 million

(2 marks)

(Total = 54 marks)

Do you know? – Interpretation of financial statements

Check that you can fill in the blanks in the statements below before you attempt any questions. If in doubt, you should go back to your BPP Workbook and revise first.

- Users of financial statements can gain a better understanding of the **s**..... of the information in financial statements by comparing it with other **r**..... information.
- Ratios provide information through
- **P**..... ratios include:
 - Return on capital employed
 - Net as a percentage of sales
 - turnover ratio
 - **G**..... profit as a percentage of sales
- Liquidity and working capital ratios include:
 - ratio
 - ratio
 - Accounts collection period
 - Accounts payment period
 - inventory period
- Debt and **g**..... /leverage ratios include:
 - Debt ratios
 - **G**..... ratio/leverage
 - **I**..... cover

Do you know? – Interpretation of financial statements

Could you fill in the blanks? The answers are in bold. Use this page for revision purposes as you approach the exam.

- Users of financial statements can gain a better understanding of the **significance** of the information in financial statements by comparing it with other **relevant** information.
- Ratios provide information through **comparison**.
- **Profitability** ratios include:
 - Return on capital employed
 - Net **profit** as a percentage of sales
 - **Asset** turnover ratio
 - **Gross** profit as a percentage of sales
- Liquidity and working capital ratios include:
 - **Current** ratio
 - **Quick** ratio
 - Accounts **receivable** collection period
 - Accounts **payable** payment period
 - **Average** inventory **turnover** period
- Debt and **gearing**/leverage ratios include:
 - Debt ratios
 - **Gearing** ratio/leverage
 - **Interest** cover

27 15 mark question: interpretation of financial statements 18 mins

Exam focus point. It is unlikely that there would be a 15-mark question solely on interpretation in the exam. However, interpretation could easily form part of a 15-mark question and test the skills covered in this question. Interpretation could also be tested in a multiple-choice question, such as those included in Section 28 of this Kit.

27.1 Binky and Smokey

Two companies Binky and Smokey trade in the same market. Their financial statements for the year ended 31 October 20X6 are summarised below:

STATEMENTS OF PROFIT OR LOSS FOR THE YEAR ENDED 31 OCTOBER 20X6

	Binky		Smokey	
	\$'000	\$'000	\$'000	\$'000
Sales revenue		284		305
Cost of sales		(155)		(151)
Gross profit		129		154
Expenses				
Administrative	24		37	
Selling and distribution	35		53	
Depreciation	9		12	
Loan note interest	—		5	
		(68)		(107)
Net profit		61		47

STATEMENTS OF FINANCIAL POSITION AS AT 31 OCTOBER 20X6

	Binky		Smokey	
	\$'000	\$'000	\$'000	\$'000
Assets				
Non-current assets				
At cost	320		515	
Accumulated depreciation	(75)		(96)	
		245		419
Current assets				
Inventory	91		293	
Receivables	46		75	
Bank	64		15	
		201		383
		446		802
Equity and liabilities				
Equity				
Share capital		150		250
Retained earnings		108		177
10% Loan note		—		50
Current liabilities		188		325
Total equity and liabilities		446		802

Task 1

Complete the following table to show the main ratios for Binky and Smokey.

Ratio	Formula	Binky	Smokey
Gross profit %			
Net profit %			
Asset turnover			
Current ratio			
Quick ratio			
Receivables collection period			

(9 marks)

Task 2

Fill in the blanks to complete this short comment on the performance of Binky and Smokey:

Of the two companies [] has the higher net profit percentage. This is due to (higher/lower) [].

Both companies have low quick ratios. In Smokey's case this is because much of its working capital is tied up in []. This has given rise to [] problems.

[] needs to improve credit control.

The [] ratio shows that Binky is making better use of its working capital than Smokey.

(6 marks)

(Total = 15 marks)

28 Interpretation of financial statements**29 mins**

28.1 Which one of the following would help a company with high gearing to reduce its gearing ratio?

- ☐ Making a rights issue of equity shares
- ☐ Issuing further long-term loan notes
- ☐ Making a bonus issue of shares
- ☐ Paying dividends on its equity shares

(2 marks)

28.2 A company's gross profit as a percentage of sales increased from 24% in the year ended 31 December 20X1 to 27% in the year ended 31 December 20X2.

Which of the following events is most likely to have caused the increase?

- ☐ An increase in sales volume
- ☐ A purchase in December 20X1 mistakenly being recorded as happening in January 20X2
- ☐ Overstatement of the closing inventory at 31 December 20X1
- ☐ Understatement of the closing inventory at 31 December 20X1

(2 marks)

- 28.3 Which of the following transactions would result in an increase in capital employed?
- ☐ Selling inventory at a profit
 - ☐ Writing off a bad debt
 - ☐ Paying a payable in cash
 - ☐ Increasing the bank overdraft to purchase a non-current asset
- (2 marks)**

- 28.4 From the following information regarding the year to 31 August 20X6, what is the accounts payable payment period? You should calculate the ratio using purchases as the denominator.

	\$
Sales	43,000
Cost of sales	32,500
Opening inventory	6,000
Closing inventory	3,800
Trade accounts payable at 31 August 20X6	4,750

- ☐ 40 days
 - ☐ 50 days
 - ☐ 53 days
 - ☐ 57 days
- (2 marks)**

The following information is relevant for Questions 28.5 to 28.7.

Quality Co is analysing its financial performance. An extract from its draft statement of financial position at 31 March 20X8 is set out below.

	\$	\$
Non-current assets		450
Current assets:		
Inventory	65	
Receivables	110	
Prepayments	30	
	<u>205</u>	
Current liabilities:		
Payables	30	
Bank overdraft (Note)	50	
	<u>80</u>	
		<u>125</u>
		575
Non-current liability: Loan		(75)
		<u>500</u>
Ordinary share capital		400
Statement of profit or loss		100
		<u>500</u>

Note. The bank overdraft first occurred on 30 September 20X7.

In the analysis of the financial and liquidity position of Quality Co, its gearing, current and quick ratios are calculated.

From the list of tokens below, match the correct token to the relevant ratio. You should calculate gearing using the capital employed (debt + equity) as the denominator.

TOKEN		Question 28.5	Question 28.6	Question 28.7
13%		Gearing	Quick ratio	Current ratio
16%				
20%				
24%				
1.75				
2.56				
2.88				
3.20				

(2 marks each, Total 6 marks)

28.8 Which of the following is a ratio which is used to measure how much a business owes in relation to its size?

- ☐ Asset turnover
- ☐ Profit margin
- ☐ Gearing
- ☐ Return on capital employed

(2 marks)

28.9 A business operates on a gross profit margin of $33\frac{1}{3}\%$. Gross profit on a sale was \$800, and expenses were \$680.

What is the net profit margin?

- ☐ 3.75%
- ☐ 5%
- ☐ 11.25%
- ☐ 22.67%

(2 marks)

28.10 A company has the following details extracted from its statement of financial position:

	\$'000
Inventories	1,900
Receivables	1,000
Bank overdraft	100
Payables	1,000

The industry the company operates in has a current ratio norm of 1.8. Companies who manage liquidity well in this industry have a current ratio lower than the norm.

Which of the following statements accurately describes the company's liquidity position?

- ☐ Liquidity appears to be well managed as the bank overdraft is relatively low.
- ☐ Liquidity appears to be poorly-controlled as shown by the large payables balance.
- ☐ Liquidity appears to be poorly-controlled as shown by the company's relatively high current ratio.
- ☐ Liquidity appears to be poorly-controlled as shown by the existence of a bank overdraft.

(2 marks)

28.11 Why is analysis of financial statements carried out?

- ☐ So that the analyst can determine a company's accounting policies
- ☐ So that the significance of financial statements can be better understood through comparisons with historical performance and with other companies
- ☐ To get back to the 'real' underlying figures, without the numbers being skewed by the requirements of International Financial Reporting Standards
- ☐ To produce a report that can replace the financial statements, so that the financial statements no longer need to be looked at

(2 marks)

28.12 In the year ended 31 December 20X1, Jolo Ltd makes profit before interest and tax of \$47,000, pays interest of \$31,000 and has outstanding loans of \$270,000.

What is the interest cover ratio for Jolo Ltd as at 31 December 20X1? (Give your answer to 2 decimal places)

	times
--	-------

(2 marks)

(Total = 24 marks)

29 Mixed bank 1**46 mins**

- 29.1 The following information is available for a sole trader who keeps no accounting records:

	\$
Net business assets at 1 July 20X4	186,000
Net business assets at 30 June 20X5	274,000

During the year ended 30 June 20X5:

Cash drawings by proprietor	68,000
Additional capital introduced by proprietor	50,000
Business cash used to buy a car for the proprietor's wife, who takes no part in the business	20,000

Using this information, what is the trader's profit for the year ended 30 June 20X5?

\$

(2 marks)

- 29.2 Evon, a limited liability company, issued 1,000,000 ordinary shares of 25 cents each at a price of \$1.10 per share, all received in cash.

What should be the accounting entries to record this issue?

- ☐ DEBIT Cash \$1,100,000
CREDIT Share capital \$250,000
CREDIT Share premium \$850,000
- ☐ DEBIT Share capital \$250,000
DEBIT Share premium \$850,000
CREDIT Cash \$1,100,000
- ☐ DEBIT Cash \$1,100,000
CREDIT Share capital \$1,100,000
- ☐ DEBIT Cash \$1,100,000
CREDIT Share capital \$250,000
CREDIT Retained earnings \$850,000

(2 marks)

- 29.3 Which of the following statements apply when preparing a consolidated statement of financial position?

- 1 All intra-group balances should be eliminated.
 - 2 Intra-group profit in year-end inventory should be eliminated.
 - 3 Closing inventory held by subsidiaries needs to be included at fair value.
- ☐ 1 only
- ☐ 1, 2 and 3
- ☐ 1 and 2 only
- ☐ 3 only

(2 marks)

29.4 At 1 July 20X4 a limited liability company's capital structure was as follows:

	\$
Share capital 1,000,000 shares of 50c each	500,000
Share premium account	400,000

In the year ended 30 June 20X5 the company made the following share issues:

1 January 20X5

A bonus issue of one share for every four in issue at that date, using the share premium account.

1 April 20X5

A rights issue of one share for every ten in issue at that date, at \$1.50 per share.

What will be the balances on the company's share capital and share premium accounts at 30 June 20X5 as a result of these issues?

	Share capital \$	Share premium account \$
<input type="radio"/>	687,500	650,000
<input type="radio"/>	675,000	375,000
<input type="radio"/>	687,500	150,000
<input type="radio"/>	687,500	400,000

(2 marks)

29.5 The receivables ledger control account below contains several incorrect entries.

RECEIVABLES LEDGER CONTROL ACCOUNT

	\$		\$
Opening balance	138,400	Credit sales	80,660
		Contras against credit balances in payables ledger	1,000
Cash received from credit customers	78,420	Irrecoverable debts written off	4,950
		Dishonoured cheques from credit customers	850
		Closing balance	129,360
	<u>216,820</u>		<u>216,820</u>

What should the closing balance be when all the errors are corrected?

- ☐ \$133,840
- ☐ \$135,540
- ☐ \$137,740
- ☐ \$139,840

(2 marks)

29.6 A limited liability company's trial balance does not balance. The totals are:

DEBIT	\$384,030
CREDIT	\$398,580

A suspense account is opened for the difference.

Which of the following pairs of errors could clear the balance on the suspense account when corrected?

- ☐ Debit side of cash book undercast by \$10,000; \$6,160 paid for rent correctly entered in the cash book but entered in the rent account as \$1,610.
- ☐ Debit side of cash book overcast by \$10,000; \$1,610 paid for rent correctly entered in the cash book but entered in the rent account as \$6,160.
- ☐ Debit side of cash book undercast by \$10,000; \$1,610 paid for rent correctly entered in the cash book but entered in the rent account as \$6,160.
- ☐ Debit side of cash book overcast by \$10,000; \$6,160 paid for rent correctly entered in the cash book but entered in the rent account as \$1,610.

(2 marks)

29.7 Which **TWO** of the following items could appear in a company's statement of cash flows?

- ☐ Surplus on revaluation of non-current assets
- ☐ Repayment of long-term borrowing
- ☐ Bonus issue of shares
- ☐ Interest received

(2 marks)

29.8 The following information is available for Orset, a sole trader who does not keep full accounting records:

	\$
Inventory 1 July 20X4	138,600
30 June 20X5	149,100
Purchases made for year ended 30 June 20X5	716,100

Orset makes a standard gross profit of 30% on sales.

Based on these figures, what is Orset's sales figure for the year ended 30 June 20X5?

- ☐ \$2,352,000
- ☐ \$1,038,000
- ☐ \$917,280
- ☐ \$1,008,000

(2 marks)

29.9 At 1 July 20X4 a company had prepaid insurance of \$8,200. On 1 January 20X5 the company paid \$38,000 for insurance for the year to 30 September 20X5.

What figures should appear for insurance in the company's financial statements for the year ended 30 June 20X5?

	Statement of Profit or Loss	Statement of Financial Position
<input type="radio"/>	\$27,200	Prepayment \$19,000
<input type="radio"/>	\$39,300	Prepayment \$9,500
<input type="radio"/>	\$36,700	Prepayment \$9,500
<input type="radio"/>	\$55,700	Prepayment \$9,500

(2 marks)

29.10 Which of the following statements are correct?

- 1 A liability is a present obligation of the entity to transfer an economic resource as a result of past events.
- 2 An uncertain liability may be called a provision.
- 3 A contingent liability should be disclosed in the notes to the financial statements.
- ☐ 1 only
- ☐ 1 and 2 only
- ☐ 2 and 3 only
- ☐ 1, 2 and 3

(2 marks)

29.11 Alpha buys goods from Beta. At 30 June 20X5 Beta's account in Alpha's records showed \$5,700 owing to Beta. Beta submitted a statement to Alpha as at the same date showing a balance due of \$5,200.

Which one of the following could account fully for the difference?

- ☐ Alpha has sent a cheque to Beta for \$500 which has not yet been received by Beta.
- ☐ The credit side of Beta's account in Alpha's records has been undercast by \$500.
- ☐ An invoice for \$250 from Beta has been treated in Alpha's records as if it had been a credit note.
- ☐ Beta has issued a credit note for \$500 to Alpha which Alpha has not yet received.

(2 marks)

29.12 Which of the following statements about intangible assets are correct?

- 1 If certain criteria are met, research expenditure must be recognised as an intangible asset.
- 2 The notes to the financial statements should disclose the gross carrying amount and the accumulated amortisation at the beginning and the end of the period for each class of intangible asset.
- 3 Intangible assets must be amortised over their useful life.
- ☐ 2 and 3 only
- ☐ 1 and 3 only
- ☐ 1 and 2 only
- ☐ All three statements are correct.

(2 marks)

29.13 Which of the following material events that took place after the reporting date, but before the financial statements were approved, are non-adjusting when applying IAS 10 *Events After the Reporting Period*?

- 1 Inventory held at the reporting date was sold for less than cost.
 - 2 Capital raised by issuing shares at a premium.
 - 3 A company reorganisation which results in discontinuing a line of activity producing 25% of its profit.
 - 4 The settlement of a claim for compensation from a former employee wrongly dismissed just before the reporting date.
- ☐ 1 and 2
☐ 1, 3 and 4
☐ 1 and 3 only
☐ 2 and 3

(2 marks)

29.14 A company sublets part of its office accommodation. In the year ended 30 June 20X5 cash received from tenants was \$83,700.

Details of rent in arrears and in advance at the beginning and end of the year were:

	<i>In arrears</i>	<i>In advance</i>
	\$	\$
1 July 20X4	3,800	2,400
30 June 20X5	4,700	3,000

All arrears of rent were subsequently received.

What figure should be included for rental income in the company's statement of profit or loss for the year ended 30 June 20X5?

\$

(2 marks)

29.15 At 30 June 20X4 a company's allowance for receivables was \$39,000. At 30 June 20X5 trade receivables totalled \$517,000. It was decided to write off debts totalling \$37,000. The allowance for receivables was to be adjusted to the equivalent of 5% of the trade receivables.

What figure should appear in the statement of profit or loss for these items?

- ☐ \$61,000
☐ \$22,000
☐ \$24,000
☐ \$23,850

(2 marks)

- 29.16 IAS 2 *Inventories* defines the extent to which overheads are included in the cost of inventories of finished goods.

Which of the following statements about the IAS 2 requirements in this area are correct?

- 1 Finished goods inventories may be valued on the basis of labour and materials cost only, without including overheads.
 - 2 Carriage inwards, but not carriage outwards, should be included in overheads when valuing inventories of finished goods.
 - 3 Factory management costs should be included in fixed overheads allocated to inventories of finished goods.
- ☐ All three statements are correct
☐ 1 and 2 only
☐ 1 and 3 only
☐ 2 and 3 only

(2 marks)

- 29.17 A limited liability company sold a building at a profit.

How will this transaction be treated in the company's statement of cash flows?

- | <i>Proceeds of sale</i> | <i>Profit on sale</i> |
|--|---|
| <input type="radio"/> Cash inflow under financing activities | Add to profit in calculating cash flow from operating activities |
| <input type="radio"/> Cash inflow under investing activities | Deducted from profit in calculating cash flow from operating activities |
| <input type="radio"/> Cash inflow under investing activities | Added to profit in calculating cash flow from operating activities |
| <input type="radio"/> Cash inflow under financing activities | Deducted from profit in calculating cash flow from operating activities |

(2 marks)

- 29.18 Which of the following items may appear in a company's statement of changes in equity, according to IAS 1 *Presentation of Financial Statements*?

- 1 Unrealised revaluation gains
 - 2 Dividends paid
 - 3 Proceeds of equity share issue
 - 4 Profit for the period
- ☐ 2, 3 and 4 only
☐ 1, 3 and 4 only
☐ All four items
☐ 1, 2 and 4 only

(2 marks)

- 29.19 Sigma's bank statement shows an overdrawn balance of \$38,600 at 30 June 20X5. A check against the company's cash book revealed the following differences:
- 1 Bank charges of \$200 have not been entered in the cash book.
 - 2 Lodgements recorded on 30 June 20X5 but credited by the bank on 2 July \$14,700.
 - 3 Cheque repayments entered in cash book but not presented for payment at 30 June 20X5 \$27,800.
 - 4 A cheque payment to a supplier of \$4,200 charged to the account in June 20X5 recorded in the cash book as a receipt.

Based on this information, what was the cash book balance **before** any adjustments?

- ☐ \$43,100 overdrawn
☐ \$16,900 overdrawn
☐ \$60,300 overdrawn
☐ \$34,100 overdrawn

(2 marks)

(Total = 38 marks)

30 Mixed bank 2

48 mins

- 30.1 The plant and machinery cost account of a company is shown below. The company's policy is to charge depreciation at 20% on the straight line basis, with proportionate depreciation in years of acquisition and disposal.

PLANT AND MACHINERY – COST

20X5	\$	20X5	\$
1 Jan Balance b/f	280,000	30 June Transfer disposal	14,000
1 Apr Cash	48,000		
1 Sept Cash	36,000	31 Dec Balance c/f	350,000
	<u>364,000</u>		<u>364,000</u>

What should be the depreciation charge for the year ended 31 December 20X5?

- ☐ \$67,000
☐ \$70,000
☐ \$64,200
☐ \$68,600

(2 marks)

30.2 Which of the following are correct?

- 1 The statement of financial position value of inventory should be as close as possible to net realisable value.
- 2 The valuation of finished goods inventory must include production overheads.
- 3 Production overheads included in valuing inventory should be calculated by reference to the company's normal level of production during the period.
- 4 In assessing net realisable value, inventory items must be considered separately, or in groups of similar items, not by taking the inventory value as a whole.

☐ 1 and 2 only

☐ 3 and 4 only

☐ 1 and 3 only

☐ 2, 3 and 4

(2 marks)

30.3 A business sublets part of its office accommodation.

The rent is received quarterly in advance on 1 January, 1 April, 1 July and 1 October. The annual rent has been \$24,000 for some years, but it was increased to \$30,000 from 1 July 20X5.

What amounts for this rent should appear in the company's financial statements for the year ended 31 January 20X6?

- | | <i>Profit or Loss</i> | <i>Financial Position</i> |
|-----------------------|-----------------------|----------------------------|
| <input type="radio"/> | \$27,500 | \$5,000 in accrued income |
| <input type="radio"/> | \$27,000 | \$2,500 in accrued income |
| <input type="radio"/> | \$27,000 | \$2,500 in deferred income |
| <input type="radio"/> | \$27,500 | \$5,000 in deferred income |

(2 marks)

30.4 The figures shown in the table below are an extract from the financial statements of Ridgeway (capital employed is \$1.5 million).

	\$
Revenue	1,000,000
Cost of sales	400,000
Gross profit	600,000
Distribution expenses and administration cost	300,000
Profit before interest and tax	300,000
Finance cost	50,000
Profit before tax	250,000
Income tax expense	100,000
Profit after tax	150,000

What is the return on capital employed (ROCE)?

☐ 7%

☐ 10%

☐ 40%

☐ 20%

(2 marks)

- 30.5 Which of the following events after the reporting period would normally qualify as adjusting events according to IAS 10 *Events After the Reporting Period*?
- 1 The bankruptcy of a credit customer with a balance outstanding at the end of the reporting period
 - 2 A decline in the market value of investments
 - 3 The declaration of an ordinary dividend
 - 4 The determination of the cost of assets purchased before the end of the reporting period
- ☐ 1, 3, and 4
- ☐ 1 and 2 only
- ☐ 2 and 3 only
- ☐ 1 and 4 only
- (2 marks)

-
- 30.6 Ordan received a statement from one of its suppliers, Alta, showing a balance due of \$3,980. The amount due according to the payables ledger account of Alta in Ordan's records was only \$230. Comparison of the statement and the ledger account revealed the following differences:

- 1 A cheque sent by Ordan for \$270 has not been allowed for in Alta's statement.
- 2 Alta has not allowed for goods returned by Ordan \$180.
- 3 Ordan made a contra entry, reducing the amount due to Alta by \$3,200, for a balance due from Alta in Ordan's receivables ledger. No such entry has been made in Alta's records.

What is the remaining difference between the two companies' records after adjusting for these items?

\$	
----	--

(2 marks)

- 30.7 A company's trial balance failed to agree, and a suspense account was opened for the difference.

Subsequent checking revealed that sales returns of \$130 had been credited to the purchases returns account and an entry on the credit side of the cash book for the purchase of some machinery \$18,000 had not been posted to the plant and machinery account.

Which **TWO** of the following journal entries would correct the errors?

	DEBIT \$	CREDIT \$
<input type="checkbox"/> Sales returns	130	
Purchases returns		130
<input type="checkbox"/> Sales returns	130	
Purchases returns	130	
Suspense account		260
<input type="checkbox"/> Suspense account	260	
Sales returns		130
Purchases returns		130
<input type="checkbox"/> Plant and machinery	18,000	
Suspense account		18,000
<input type="checkbox"/> Suspense account	18,000	
Plant and machinery		18,000

(2 marks)

The following information is relevant for Questions 30.8 and 30.9.

A company's draft financial statements for 20X5 showed a profit of \$630,000. However, the trial balance did not agree, and a suspense account appeared in the company's draft statement of financial position. Subsequent checking revealed the following errors:

- 1 The cost of an item of plant \$48,000 had been entered in the cash book and in the plant register as \$4,800. Depreciation at the rate of 10% per year (\$480) had been charged.
- 2 Bank charges of \$440 appeared in the bank statement in December 20X5 but had not been entered in the company's records.
- 3 One of the directors of the company paid \$800 due to a supplier in the company's payables ledger by a personal cheque. The bookkeeper recorded a debit in the supplier's ledger account but did not complete the double entry for the transaction. (The company does not maintain a payables ledger control account).
- 4 The payments side of the cash book had been understated by \$10,000.

- 30.8 Which of the above items would require an entry to the suspense account in correcting them?

- ☐ All four items
☐ 3 and 4 only
☐ 2 and 3 only
☐ 1, 2 and 4 only

(2 marks)

30.9 What will the company's profit be after the correction of the above errors?

- ☐ \$634,760
- ☐ \$624,760
- ☐ \$624,440
- ☐ \$625,240

(2 marks)

30.10 Which of the following statements are correct?

- 1 A company might make a rights issue if it wished to raise more equity capital.
 - 2 A rights issue might increase the share premium account whereas a bonus issue is likely to reduce it.
 - 3 A bonus issue will generate cash for a company.
 - 4 A rights issue will always increase the number of shareholders in a company whereas a bonus issue will not.
- ☐ 1 and 2
 - ☐ 1 and 3
 - ☐ 2 and 3
 - ☐ 2 and 4

(2 marks)

30.11 Which of the following statements are correct?

- 1 Contingent assets are included as assets in financial statements if it is probable that they will arise.
 - 2 Contingent liabilities must be provided for in financial statements if it is probable that they will arise.
 - 3 Material non-adjusting events are disclosed by note in the financial statements.
- ☐ 1 only
 - ☐ 1 and 3
 - ☐ 2 and 3
 - ☐ 3 only

(2 marks)

30.12 At 1 January 20X5 a company had an allowance for receivables of \$18,000.

At 31 December 20X5 the company's trade receivables were \$458,000.

It was decided:

- (a) To write off debts totalling \$28,000 as irrecoverable
- (b) To adjust the allowance for receivables to the equivalent of 5% of the remaining receivables

What figure should appear in the company's statement of profit or loss for the total of debts written off as irrecoverable and the movement in the allowance for receivables for the year ended 31 December 20X5?

- ☐ \$49,500
- ☐ \$31,500
- ☐ \$32,900
- ☐ \$50,900

(2 marks)

- 30.13 The following payables ledger control account contains some errors. All goods are purchased on credit.

PAYABLES LEDGER CONTROL ACCOUNT

	\$		\$
Purchases	963,200	Opening balance	384,600
Discounts received	12,600	Purchases returns	17,400
Contras with amounts receivable in receivables ledger	4,200	Cash paid to suppliers	988,400
Closing balance	410,400		
	<u>1,390,400</u>		<u>1,390,400</u>

What should the closing balance be when the errors have been corrected?

- ☐ \$325,200
☐ \$350,400
☐ \$358,800
☐ \$376,800

(2 marks)

- 30.14 Which one of the following journal entries is required to record goods taken from inventory by the owner of a business?

- ☐ DEBIT Drawings
CREDIT Purchases
☐ DEBIT Sales
CREDIT Drawings
☐ DEBIT Drawings
CREDIT Inventory
☐ DEBIT Purchases
CREDIT Drawings

(2 marks)

- 30.15 The following information is available about the transactions of Razil, a sole trader who does not keep proper accounting records:

	\$
Opening inventory	77,000
Closing inventory	84,000
Purchases	763,000

Gross profit as a percentage of sales 30%

Based on this information, what is Razil's sales revenue for the year?

- ☐ \$982,800
☐ \$1,090,000
☐ \$2,520,000
☐ \$1,080,000

(2 marks)

30.16 Which of the following statements are correct?

- 1 All non-current assets must be depreciated.
 - 2 If property accounted for in accordance with *IAS 16 Property, Plant and Equipment* is revalued, the gain on revaluation is shown in the statement of profit or loss.
 - 3 If a tangible non-current asset is revalued, all tangible assets of the same class should be revalued.
 - 4 In a company's published statement of financial position, tangible assets and intangible assets must be shown separately.
- ☐ 1 and 2
☐ 2 and 3
☐ 3 and 4
☐ 1 and 4

(2 marks)

30.17 The following bank reconciliation statement has been prepared by a trainee accountant at 31 December 20X5.

	\$
Balance per bank statement (overdrawn)	38,640
Add: lodgements not credited	19,270
	<u>57,910</u>
Less: unpresented cheques	14,260
Balance per cash book	<u>43,650</u>

What should the final cash book balance be when all the above items have been properly dealt with?

- ☐ \$43,650 overdrawn
☐ \$33,630 overdrawn
☐ \$5,110 overdrawn
☐ \$72,170 overdrawn

(2 marks)

30.18 On 1 January 20X5 a company purchased some plant.

The invoice showed:

	\$
Cost of plant	48,000
Delivery to factory	400
One year warranty covering breakdown during 20X5	800
	<u>49,200</u>

Modifications to the factory building costing \$2,200 were necessary to enable the plant to be installed.

What amount should be capitalised for the plant in the company's records?

- ☐ \$51,400
☐ \$48,000
☐ \$50,600
☐ \$48,400

(2 marks)

- 30.19 A business had an opening inventory of \$180,000 and a closing inventory of \$220,000 in its financial statements for the year ended 31 December 20X5.

Which of the following entries for these opening and closing inventory figures are made when completing the financial records of the business?

	DEBIT \$	CREDIT \$
<input type="radio"/> Inventory account Statement of profit or loss (SPL)	180,000	180,000
<input type="radio"/> Statement of profit or loss (SPL) Inventory account	220,000	220,000
<input type="radio"/> Statement of profit or loss (SPL) Inventory account	180,000	180,000
<input type="radio"/> Inventory account Statement of profit or loss (SPL)	220,000	220,000
<input type="radio"/> Inventory account Purchases account	40,000	40,000
<input type="radio"/> Purchases account Inventory account	40,000	40,000
		(2 marks)

- 30.20 Tinsel Co has 5 million \$1 issued ordinary shares. At 1 May 20X0 Fairy Co purchased 60% of Tinsel Co's \$1 ordinary shares for \$4,000,000. At that date Tinsel Co had net assets with a fair value of \$4,750,000 and a share price of \$1.10. Fairy Co valued the non-controlling interest in Tinsel Co at acquisition as \$2,200,000.

What is the total goodwill on acquisition at 1 May 20X0?

- ☐ \$1,150,000
☐ \$1,750,000
☐ \$ 750,000
☐ \$1,450,000

(2 marks)

(Total = 40 marks)

31 Mixed bank 3

46 mins

- 31.1 On 1 September 20X6, a business had inventory of \$380,000. During the month, sales totalled \$650,000 and purchases \$480,000. On 30 September 20X6 a fire destroyed some of the inventory. The undamaged goods in inventory were valued at \$220,000. The business operates with a standard gross profit margin of 30%.

Based on this information, what is the cost of the inventory destroyed in the fire?

- ☐ \$185,000
☐ \$140,000
☐ \$405,000
☐ \$360,000

(2 marks)

31.2 Which of the following should appear as separate items in a company's statement of changes in equity?

- 1 Profit for the financial year
 - 2 Income from investments
 - 3 Dividends paid on redeemable preference shares
 - 4 Dividends paid on equity shares
- ☐ 1, 3 and 4
☐ 1 and 4 only
☐ 2 and 3 only
☐ 1, 2 and 3

(2 marks)

31.3 The following information is available about a company's dividends:

		\$
20X5		
Sept.	Final dividend for the year ended 30 June 20X5 paid (declared August 20X5)	100,000
20X6		
March	Interim dividend for the year ended 30 June 20X6 paid	40,000
Sept.	Final dividend for the year ended 30 June 20X6 paid (declared August 20X6)	120,000

What figures, if any, should be disclosed in the company's statement of profit or loss and other comprehensive income (SPLOCI) for the year ended 30 June 20X6 and its statement of financial position (SOFPI) as at that date?

	SPLOCI for the period	SOFPI liability
<input type="radio"/>	\$160,000 deduction	\$120,000
<input type="radio"/>	\$140,000 deduction	nil
<input type="radio"/>	nil	\$120,000
<input type="radio"/>	nil	nil

(2 marks)

31.4 Goose Co has a 49% shareholding in each of the following three companies.

- 1 Turkey Co: Goose Co has the right to appoint or remove a majority of the directors of Turkey Co.
- 2 Duck Co: Goose Co has more than half the voting rights in Duck Co as a result of an agreement with other investors.
- 3 Partridge Co: Goose Co has the power to govern the financial and operating policies of Partridge Co.

Which of these companies are subsidiaries of Goose Co for financial reporting purposes?

- ☐ Turkey Co and Duck Co only
☐ Partridge Co and Duck Co only
☐ Partridge Co and Turkey Co only
☐ Partridge Co, Turkey Co and Duck Co

(2 marks)

31.5 At 1 July 20X5 a company's allowance for receivables was \$48,000.

At 30 June 20X6, trade receivables amounted to \$838,000. It was decided to write off \$72,000 of these debts and adjust the allowance for receivables to \$60,000.

What are the final amounts for inclusion in the company's statement of financial position at 30 June 20X6?

	Trade receivables \$	Allowance for receivables \$	Net balance \$	
<input type="radio"/>	838,000	60,000	778,000	
<input type="radio"/>	766,000	60,000	706,000	
<input type="radio"/>	766,000	108,000	658,000	
<input type="radio"/>	838,000	108,000	730,000	(2 marks)

31.6 Which **TWO** of the following statements about inventory valuation for statement of financial position purposes are correct?

- ☐ According to IAS 2 *Inventories*, average cost and FIFO (first in, first out) are both acceptable methods of arriving at the cost of inventories.
- ☐ Inventories of finished goods may be valued at labour and materials cost only, without including overheads.
- ☐ Inventories should be valued at the lowest of cost, net realisable value and replacement cost.
- ☐ It may be acceptable for inventories to be valued at selling price less estimated profit margin.

(2 marks)

31.7 A business received a delivery of goods on 29 June 20X6, which was included in inventory at 30 June 20X6. The invoice for the goods was recorded in July 20X6.

What effect will this have on the business?

- 1 Profit for the year ended 30 June 20X6 will be overstated.
 - 2 Inventory at 30 June 20X6 will be understated.
 - 3 Profit for the year ending 30 June 20X7 will be overstated.
 - 4 Inventory at 30 June 20X6 will be overstated.
- ☐ 1 and 2
☐ 2 and 3
☐ 1 only
☐ 1 and 4

(2 marks)

31.8 Based on the information below, what is the acid test ratio for Edward Co?

EDWARD CO TRIAL BALANCE (EXTRACT)

	\$
Receivables	176,000
Inventories	20,000
Trade payables	61,000
Bank overdraft	79,000
Long term loan	10,000
Retained earnings	5,000

- ☐ 1.13:1
☐ 1.40:1
☐ 1.35:1
☐ 1.26:1

(2 marks)

31.9 Which of the following characteristics of financial information are included in the IASB's *Conceptual Framework for Financial Reporting*?

- 1 Comparability
 2 Relevance
 3 Timeliness
 4 Faithful representation

- ☐ All four items
☐ 1, 2 and 3 only
☐ 1, 2 and 4 only
☐ 2, 3 and 4 only

(2 marks)

31.10 Details of a company's insurance policy are shown below:

Premium for year ended 31 March 20X6 paid April 20X5	\$10,800
Premium for year ending 31 March 20X7 paid April 20X6	\$12,000

What figures should be included in the company's financial statements for the year ended 30 June 20X6?

<i>Profit or Loss SPL</i>	<i>Financial position SOFP</i>
\$	\$
<input type="radio"/> 11,100	9,000 prepayment (DEBIT)
<input type="radio"/> 11,700	9,000 prepayment (DEBIT)
<input type="radio"/> 11,100	9,000 accrual (CREDIT)
<input type="radio"/> 11,700	9,000 accrual (CREDIT)

(2 marks)

31.11 Which of the following statements about bank reconciliations are correct?

- 1 In preparing a bank reconciliation, unpresented cheques must be deducted from a balance of cash at bank shown in the bank statement.
 - 2 A cheque from a customer paid into the bank but dishonoured must be corrected by making a debit entry in the cash book.
 - 3 An error by the bank must be corrected by an entry in the cash book.
 - 4 An overdraft is a debit balance in the bank statement.
- ☐ 1 and 3
☐ 2 and 3
☐ 1 and 4
☐ 2 and 4

(2 marks)

31.12 At 30 June 20X5 the equity of Meredith, a limited liability company, was:

	\$m
<i>Share capital</i>	
Ordinary shares of \$1 each	100
Share premium account	80

During the year ended 30 June 2006, the following transactions took place:

- 1 September 20X5 A bonus issue of one ordinary share for every two held, using the share premium account.
- 1 January 20X6 A fully subscribed rights issue of two ordinary shares for every five held at that date, at \$1.50 per share.

What would the balances on each account be at 30 June 20X6?

	<i>Share capital</i>	<i>Share premium</i>
	\$m	\$m
<input type="radio"/>	210	110
<input type="radio"/>	210	60
<input type="radio"/>	240	30
<input type="radio"/>	240	80

(2 marks)

31.13 Which of the following statements about the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are correct?

- 1 Contingent assets and liabilities should not be recognised in the financial statements.
 - 2 A contingent asset should only be disclosed in the notes to a financial statement where an inflow of economic benefits is probable.
 - 3 A contingent liability may be ignored if the possibility of the transfer of economic benefits is remote.
- ☐ All three statements are correct
☐ 1 and 2 only
☐ 1 and 3 only
☐ 2 and 3 only

(2 marks)

31.14 Which of the following errors would cause a trial balance not to balance?

- 1 An error in the addition in the cash book.
 - 2 Failure to record a transaction at all.
 - 3 Cost of a motor vehicle debited to motor expenses account. The cash entry was correctly made.
 - 4 Goods taken by the proprietor of a business recorded by debiting purchases and crediting drawings account.
- ☐ 1 only
☐ 1 and 2 only
☐ 3 and 4 only
☐ All four items

(2 marks)

31.15 Manchester has 10 million \$1 issued ordinary shares. At 1 May 20X9 Bristol purchased 70% of Manchester's \$1 ordinary shares for \$8,000,000. At that date Manchester had net assets with a fair value of \$8,750,000 and its share price was \$1.20. The non-controlling interest is valued using the share price at the date of acquisition.

What was the total goodwill arising on acquisition at 1 May 20X9?

\$

(2 marks)

31.16 All the sales made by a retailer are for cash, and her sale prices are fixed by doubling cost. Details recorded of her transactions for September 20X6 are as follows:

		\$
1 Sept	Inventories	40,000
30 Sept	Purchases for month	60,000
	Cash banked for sales for month	95,000
	Inventories	50,000

Which **TWO** of the following conclusions could separately be drawn from this information?

- 1 \$5,000 cash has been stolen from the sales revenue prior to banking.
 - 2 Goods costing \$5,000 have been stolen.
 - 3 Goods costing \$2,500 have been stolen.
 - 4 Some goods costing \$2,500 had been sold at cost price.
- ☐ 1 and 2
☐ 1 and 3
☐ 2 and 4
☐ 3 and 4

(2 marks)

- 31.17 A company owns a number of properties which are rented to tenants. The following information is available for the year ended 30 June 20X6:

	Rent in advance \$	Rent in arrears \$
1 July 20X5	134,600	4,800
30 June 20X6	144,400	8,700

Cash received from tenants in the year ended 30 June 20X6 was \$834,600.

All rent in arrears was subsequently received.

What figure should appear in the company's statement of profit or loss for rent receivable in the year ended 30 June 20X6?

- ☐ \$840,500
☐ \$1,100,100
☐ \$569,100
☐ \$828,700

(2 marks)

- 31.18 The following receivables ledger control account has been prepared by a trainee accountant:

\$			\$		
20X3			20X3		
1 Jan	Balance	284,680	31 Dec	Cash received from credit customers	179,790
31 Dec	Credit sales	189,120		Contras against amounts owing by company in payables ledger	800
	Irrecoverable debts written off	5,460		Balance	303,590
	Sales returns	4,920			484,180
		<u>484,180</u>			<u>484,180</u>

What should the closing balance on the account be when the errors in it are corrected?

- ☐ \$290,150
☐ \$286,430
☐ \$282,830
☐ \$284,430

(2 marks)

- 31.19 The carrying amount of a company's non-current assets was \$200,000 at 1 August 20X0. During the year ended 31 July 20X1, the company sold non-current assets for \$25,000 on which it made a loss of \$5,000. The depreciation charge of the year was \$20,000. What was the carrying amount of non-current assets at 31 July 20X1?

- ☐ \$150,000
☐ \$155,000
☐ \$170,000
☐ \$175,000

(2 marks)

(Total = 38 marks)

32 Mixed bank 4**41 mins**

- 32.1 A company issued one million ordinary \$1 shares at a premium of 50c per share. The proceeds were correctly recorded in the cash book, but were incorrectly credited to the sales account.

Which one of the following journal entries will correct the error?

	DEBIT \$	CREDIT \$	
<input type="radio"/> Sales	1,500,000		
Share capital		1,000,000	
Share premium		500,000	
<input type="radio"/> Share capital	1,000,000		
Share premium		500,000	
Sales		1,500,000	
<input type="radio"/> Sales	1,500,000		
Share capital		1,500,000	
<input type="radio"/> Share capital	1,500,000		
Sales		1,500,000	(2 marks)

- 32.2 After proposing a final dividend, Kenilworth Co has a current ratio of 2.0 and a quick ratio of 0.8.

If the company now uses its positive cash balance to pay that final dividend, what will be the effect upon these two ratios?

- ☐ Increase current ratio and decrease quick ratio
- ☐ Increase current ratio and increase quick ratio
- ☐ Decrease current ratio and decrease quick ratio
- ☐ Decrease current ratio and increase quick ratio (2 marks)

- 32.3 A property company received cash for rent totalling \$838,600 in the year ended 31 December 20X6.

Figures for rent in advance and in arrears at the beginning and end of the year were:

	1 January 20X6 \$	31 December 20X6 \$
Rent received in advance	102,600	88,700
Rent in arrears (all subsequently received)	42,300	48,400

What amount should appear in the company's statement of profit or loss for the year ended 31 December 20X6 for rental income?

- ☐ \$818,600
- ☐ \$738,000
- ☐ \$939,200
- ☐ \$858,600 (2 marks)

32.4 Which one of the following journal entries is correct according to its narrative?

	DEBIT \$	CREDIT \$
<input type="radio"/> Mr Smith personal account Directors' remuneration Bonus allocated to account of managing director (Mr Smith)	100,000	100,000
<input type="radio"/> Purchases Wages Repairs to buildings Transferring cost of repairs to buildings carried out by company's own employees, using materials from inventory.	14,000 24,000	38,000
<input type="radio"/> Sales returns Purchases returns Correction of error: sales returns incorrectly debited to purchases returns account	2,800	2,800
<input type="radio"/> Suspense account Rent receivable Rent payable Correction of error: rent received credited in error to rent payable account.	20,000	10,000 10,000

(2 marks)

32.5 IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* deals with accounting for contingencies. What is the correct accounting treatment for the following?

- (a) A probable loss (a constructive obligation exists, for which the amount can be reliably estimated)
- (b) A probable gain

<i>Probable loss</i>	<i>Probable gain</i>
<input type="radio"/> Accrued	<input type="radio"/> Disclosed
<input type="radio"/> Accrued	<input type="radio"/> Not disclosed
<input type="radio"/> Disclosed, but not accrued	<input type="radio"/> Disclosed
<input type="radio"/> Disclosed, but not accrued	<input type="radio"/> Not disclosed

(2 marks)

32.6 A company has occupied rented premises for some years, paying an annual rent of \$120,000. From 1 April 20X6 the rent was increased to \$144,000 per year. Rent is paid quarterly in advance on 1 January, 1 April, 1 July and 1 October each year.

What figures should appear for rent in the company's financial statements for the year ended 30 November 20X6?

SPLOCI \$		SOFP \$
<input type="radio"/> 136,000	Prepayment	12,000
<input type="radio"/> 136,000	Prepayment	24,000
<input type="radio"/> 138,000		Nil
<input type="radio"/> 136,000	Accrual	12,000

(2 marks)

32.7 At 1 January 20X6 a company had an allowance for receivables of \$49,000.

At 31 December 20X6 the company's trade receivables were \$863,000 and it was decided to write off balances totalling \$23,000. The allowance for receivables was to be adjusted to the equivalent of 5% of the remaining receivables.

What total figure should appear in the company's statement of profit or loss for receivables expense?

- ☐ \$16,000
- ☐ \$65,000
- ☐ \$30,000
- ☐ \$16,150

(2 marks)

32.8 At 1 January 20X6, a company's capital structure was as follows:

	\$
Ordinary share capital	
2,000,000 shares of 50c each	1,000,000
Share premium account	1,400,000

In January 20X6 the company issued 1,000,000 shares at \$1.40 each.

In September 20X6 the company made a bonus issue of one share for every three held using the share premium account.

What were the balances on the company's share capital and share premium accounts after these transactions?

	<i>Share capital</i> \$	<i>Share premium</i> \$
<input type="radio"/>	4,000,000	800,000
<input type="radio"/>	3,200,000	600,000
<input type="radio"/>	2,000,000	1,800,000
<input type="radio"/>	2,000,000	1,300,000

(2 marks)

32.9 Which of the following statements about the treatment of inventory and work in progress in financial statements are correct?

- 1 Inventory should be valued at the lowest of cost, net realisable value and replacement cost.
 - 2 In valuing work in progress, materials costs, labour costs and variable and fixed production overheads must be included.
 - 3 Inventory items can be valued using either first in, first out (FIFO) or weighted average cost.
 - 4 A company's financial statements must disclose the accounting policies used in measuring inventories.
- ☐ All four statements are correct.
 - ☐ 1, 2 and 3 only
 - ☐ 2, 3 and 4 only
 - ☐ 1 and 4 only

(2 marks)

- 32.10 The plant and equipment account in the records of a company for the year ended 31 December 20X6 is shown below.

PLANT AND EQUIPMENT – COST

20X6	\$	20X6	\$
1 Jan Balance	960,000		
1 July Cash	48,000	30 Sept Transfer disposal account	84,000
		31 Dec Balance	924,000
	<u>1,008,000</u>		<u>1,008,000</u>

The company's policy is to charge depreciation on the straight line basis at 20% per year, with proportionate depreciation in the years of purchase and sale.

What should be the charge for depreciation in the company's statement of profit or loss for the year ended 31 December 20X6?

\$	
----	--

(2 marks)

- 32.11 The trial balance of a company did not balance, and a suspense account was opened for the difference.

Which **TWO** of the following errors would require an entry to the suspense account in correcting them?

- ☐ A cash payment to purchase a motor van had been correctly entered in the cash book but had been debited to the motor expenses account.
- ☐ The debit side of the wages account had been undercast.
- ☐ Sales returns had been credited to the purchases returns account.
- ☐ A cash refund to a customer had been recorded by debiting the cash book and crediting the customer's account.

(2 marks)

- 32.12 A trader took goods that had cost \$2,000 from inventory for personal use.

Which one of the following journal entries would correctly record this?

	DEBIT \$	CREDIT \$	
<input type="radio"/> Drawings	2,000		
Inventory		2,000	
<input type="radio"/> Purchases	2,000		
Drawings		2,000	
<input type="radio"/> Sales	2,000		
Drawings		2,000	
<input type="radio"/> Drawings	2,000		
Purchases		2,000	

(2 marks)

- 32.13 Nasty is a wholly owned subsidiary of Ugly. Inventories in their individual statements of financial position at the year end are shown as:

Ugly	\$40,000
Nasty	\$20,000

Sales by Ugly to Nasty during the year were invoiced at \$15,000 which included a profit by Ugly of 25% on cost. Two thirds of these goods were included in inventories at the year end.

At what value should inventories appear in the consolidated statement of financial position?

- ☐ \$50,000
- ☐ \$57,000
- ☐ \$57,500
- ☐ \$58,000

(2 marks)

- 32.14 Where in the financial statements should tax on profit for the current period, and profit for the period, be separately disclosed?

<i>Statement of profit or loss and other comprehensive income</i>	<i>Statement of changes in equity</i>
<input type="radio"/> Tax on profit and profit for the period	<input type="radio"/> Tax on profit
<input type="radio"/> Profit for the period	<input type="radio"/> Tax on profit and profit for the period
<input type="radio"/> Tax on profit	<input type="radio"/> Profit for the period
<input type="radio"/> Tax on profit and profit for the period	<input type="radio"/> Profit for the period

(2 marks)

- 32.15 When is the reducing balance method of depreciating non-current assets more appropriate than the straight line method?

- ☐ When the expected life of the asset is short
- ☐ When the asset is expected to decrease in value by a fixed percentage of cost each year
- ☐ When the expected life of the asset is not capable of being estimated accurately
- ☐ When the asset is expected to decrease in value less in later years than in the early years of its life

(2 marks)

32.16 A draft statement of cash flows contains the following:

	\$m
Profit before tax	22
Depreciation	8
Increase in inventories	(4)
Decrease in receivables	(3)
Increase in payables	(2)
Net cash inflow from operating activities	<u>21</u>

Which of the following corrections need to be made to the calculation?

- 1 Depreciation should be deducted, not added
 - 2 Increase in inventories should be added, not deducted
 - 3 Decrease in receivables should be added, not deducted
 - 4 Increase in payables should be added, not deducted
- ☐ 1 and 2
☐ 1 and 3
☐ 2 and 4
☐ 3 and 4

(2 marks)

32.17 Your inexperienced colleague, Paul Jones, has attempted to extract and total the individual balances in the receivables ledger. He provides you with the following listing which he has prepared.

	\$
Bury Inc	7,500
P Fox & Son (Swindon) Co	2,000
Frank Wrendlebury & Co	4,297
D Richardson & Co	6,847
Ultra Co	783
Lawrenson Co	3,765
Walkers Inc	4,091
P Fox & Son (Swindon) Co	2,000
Whitchurch Co	8,112
Ron Bradbury & Co	5,910
Anderson Co	<u>1,442</u>
	<u>46,747</u>

Subsequent to the drawing up of the list, the following errors have so far been found.

- (a) A sales invoice for \$267 sent to Whitchurch Co had been correctly entered in the day book but had not then been posted to the account for Whitchurch Co in the receivables ledger.
- (b) One of the errors made by Paul Jones was to omit the \$2,435 balance of Rectofon Co from the list.
- (c) A credit note for \$95 sent to Bury Co had been correctly entered in the day book but was entered in the account in the receivables ledger as \$75.

What is the revised balance of the receivables ledger after correcting these errors?

- ☐ \$45,665
☐ \$47,449
☐ \$47,429
☐ \$45,645

(2 marks)

(Total = 34 marks)

33 Mixed bank 5**48 mins**

33.1 A firm has the following transactions with its product R.

1 January 20X1	Opening inventory: nil
1 February 20X1	Buys 10 units at \$300 per unit
11 February 20X1	Buys 12 units at \$250 per unit
1 April 20X1	Sells 8 units at \$400 per unit
1 August 20X1	Buys 6 units at \$200 per unit
1 December 20X1	Sells 12 units at \$400 per unit

The firm uses FIFO to value its inventory. What is the inventory value at the end of the year?

- ☐ \$nil
- ☐ \$1,700
- ☐ \$2,400
- ☐ \$2,007.20

(2 marks)

33.2 Which of the following provides advice to the International Accounting Standards Board (IASB) as well as informing the IASB of the implications of proposed standards for users and preparers of financial statements?

- ☐ The IFRS Advisory Council
- ☐ The IFRS Interpretations Committee
- ☐ The IFRS Foundation
- ☐ The Trustees of the IFRS

(2 marks)

33.3 Samantha has extracted a trial balance and created a suspense account with a credit balance of \$759 to make it balance.

Samantha found the following:

- (a) A sales invoice for \$4,569 has not been entered in the accounting records.
- (b) A payment of \$1,512 has been posted correctly to the payables control account but no other entry has been made.
- (c) A credit sale of \$131 has only been credited to the sales account.

What is the remaining balance on the suspense account after these errors have been corrected?

- ☐ \$3,810 DEBIT
- ☐ \$2,140 CREDIT
- ☐ \$890 CREDIT
- ☐ \$622 DEBIT

(2 marks)

- 33.4 Which of the following errors should be identified by performing a receivables control account reconciliation?
- ☐ A sales invoice of \$500 has been omitted from the sales daybook.
 - ☐ A sales return of \$45 was entered as \$54 in the sales returns daybook.
 - ☐ Purchases of \$72 were entered as sales returns in the sales returns daybook and the individual account.
 - ☐ The total of the sales daybook was miscast by \$200.
- (2 marks)**
-

- 33.5 Carol had receivables of \$598,600 at 30 November 20X8. Her allowance for receivables at 1 December 20X7 was \$12,460. She wished to change it to the equivalent of 2% of receivables at 30 November 20X8. On 29 November 20X8 she received \$635 in full settlement of a debt that she had written off in the year ended 30 November 20X7.

What total amount should be recognised for receivables in the statement of profit or loss for the year ended 30 November 20X8?

- ☐ \$488 CREDIT
 - ☐ \$11,972 DEBIT
 - ☐ \$1,123 CREDIT
 - ☐ \$147 DEBIT
- (2 marks)**
-

- 33.6 Joanna has prepared her draft financial statements for the year ended 30 April 20X8, and needs to adjust them for the following items:

- (a) Rent of \$10,500 was paid and recorded on 2 January 20X7 for the period 1 January to 31 December 20X7. The landlord has advised that the annual rent for 20X8 will be \$12,000 although it has not been invoiced or paid yet.
- (b) Property and contents insurance is paid annually on 1 March. Joanna paid and recorded \$6,000 on 1 March 20X8 for the year from 1 March 20X8 to 28 February 20X9.

What should the net effect on profit be in the draft financial statements for the year ended 30 April 20X8 of adjusting for the above items?

- ☐ \$1,000 decrease
 - ☐ \$1,500 increase
 - ☐ \$1,000 increase
 - ☐ \$1,500 decrease
- (2 marks)**
-

- 33.7 Carter, a limited liability company, has non-current assets with a carrying amount of \$2,500,000 on 1 December 20X7.

During the year ended 30 November 20X8, the following occurred:

- (a) Depreciation of \$75,000 was charged to the statement of profit or loss.
- (b) Land and buildings with a carrying amount of \$1,200,000 were revalued to \$1,700,000.
- (c) An asset with a carrying amount of \$120,000 was disposed of for \$150,000.
- (d) The carrying amount of non-current assets at 30 November 20X8 was \$4,200,000.

In accordance with IAS7 *Statement of Cash Flows*, what are the net cash flows from the above transactions to be included in 'net cash flows from investing activities' for the year ended 30 November 20X8?

- ☐ \$(1,395,000)
- ☐ \$(1,365,000)
- ☐ \$150,000
- ☐ \$(1,245,000)

(2 marks)

- 33.8 Steven's receivables ledger control account does not agree with the total of the receivables ledger. He discovered the following errors:

- 1 A sales invoice has been entered into the sales day book as \$895 rather than \$859.
- 2 The receivables column of the cash received day book has been undercast by \$600.
- 3 A contra of \$400 against the purchase ledger has only been entered in the control account.

Which of the above errors would cause a difference between the receivables control account and the total of the receivables ledger?

- ☐ 2 and 3 only
- ☐ 1 and 3 only
- ☐ 1 and 2 only
- ☐ 1, 2 and 3

(2 marks)

- 33.9 Luis sold goods to Pedro in May 20X9 with a list price of \$98,000. Luis allowed a trade discount of 10%. Pedro returned goods with a list price of \$3,000 on 31 May and returned a further \$5,000 of goods at list price on 6 June as they were found to be unsuitable.

How much should Luis record in the sales returns account at 31 May?

- ☐ \$2,700
- ☐ \$3,000
- ☐ \$8,000
- ☐ \$7,200

(2 marks)

33.10 A newly-registered company is considering the accounting policies it should adopt.

Policies under consideration are:

- 1 Research and development expenditure should be capitalised and amortised over the years in which the resultant product is sold or used.
- 2 Inventory should be valued at the lower of cost and net realisable value.
- 3 Goodwill arising in a business combination should be written off immediately to the statement of profit or loss.

Which of these possible accounting policies would, if adopted, contravene International Financial Reporting Standards?

- ☐ 1 and 2 only
- ☐ 2 and 3 only
- ☐ 1 and 3 only
- ☐ 1, 2 and 3

(2 marks)

33.11 You have recently been appointed as assistant accountant of PQR Co. You have assisted in preparing a forecast set of financial statements for the company whose year end is 31 December 20X7. The forecast shows that the company is expected to make a loss during the year to 31 December 20X7.

The managing director is concerned that the company's shareholders would be unhappy to hear that the company had made a loss. He is determined to avoid making a loss if at all possible. He has made the following suggestions in order to remedy the situation.

- 1 Value inventory using the LIFO basis as prices are rising so this will reduce inventory costs in the statement of profit or loss.
- 2 Create a provision against future losses in case this happens again in the future.
- 3 Stop amortising all capitalised development expenditure.

Which of these suggestions do you agree with?

- ☐ 1 and 2 only
- ☐ 3 only
- ☐ 2 only
- ☐ None of the statements

(2 marks)

- 33.12 Which of the following journal entries may be accepted as being correct according to their narratives?

		DEBIT \$	CREDIT \$
1	Wages account	38,000	
	Purchases account	49,000	
	Buildings account		87,000
	Labour and materials used in construction of extension to factory		
2	Directors' personal accounts: A	30,000	
	B		40,000
	Directors' remuneration		70,000
	Directors' bonuses transferred to their accounts		
3	Suspense account	10,000	
	Sales account		10,000
	Correction of error in addition – total of credit side of sales account \$10,000 understated		

- ☐ 1 and 3
☐ 1 and 2
☐ 3 only
☐ 2 and 3

(2 marks)

- 33.13 Which of the following costs should be included in valuing inventories of finished goods held by a manufacturing company, according to IAS 2 *Inventories*?

- 1 Carriage inwards
 2 Carriage outwards
 3 Depreciation of factory plant
 4 Accounts department costs relating to wages for production employees
☐ All four items
☐ 2 and 3 only
☐ 1, 3 and 4 only
☐ 1 and 4 only

(2 marks)

- 33.14 Frog acquired 100% of the ordinary share capital of Toad on 1 October 20X7.

On 31 December 20X7 retained earnings of Toad and Frog were as follows:

	Frog	Toad
	\$'000	\$'000
Retained earnings at 1 January 20X7	500	100
Retained profit for the year ended 31 December 20X7	<u>150</u>	<u>60</u>
	<u>650</u>	<u>160</u>

The profits of Toad have accrued evenly throughout 20X7.

What figure for retained earnings should be included in the consolidated financial statements of the Frog group at 31 December 20X7?

- ☐ \$150,000
- ☐ \$175,000
- ☐ \$665,000
- ☐ \$810,000

(2 marks)

- 33.15 The following extract is from the statement of profit or loss of Gearing Co for the year ended 30 April 20X8.

	\$
Profit before tax	68,000
Tax	(32,000)
Profit for the year	<u>36,000</u>

In addition to the profit above:

- (a) Gearing Co paid a dividend of \$21,000 during the year.
- (b) A gain on revaluation of land resulted in a surplus of \$18,000.

What total amount will be added to retained earnings at the end of the financial year?

- ☐ \$36,000
- ☐ \$33,000
- ☐ \$47,000
- ☐ \$15,000

(2 marks)

- 33.16 What does an increase in the allowance for receivables result in?

- ☐ A decrease in current liabilities
- ☐ An increase in net profit
- ☐ An increase in working capital
- ☐ A decrease in working capital

(2 marks)